FILE COPY

Office Supreme Court, U. S.
FILED
JAN 24 1940
CHARLES ELMORE CROPLEY
CLERK

No. 536

Supreme Court of the United States

OCTOBER TERM, 1939

ETHYL GASOLINE CORPORATION, EARLE W. WEBB AND JOHN COARD TAYLOR, *Appellants*,

v.

THE UNITED STATES OF AMERICA

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR APPELLANTS

DEAN G. ACHESON,
H. THOMAS AUSTERN,
Counsel for Appellants.

INDEX.

	Page
Opinion Below	1
Jurisdiction	1
Statute Involved	2
Statement	2
1. The Inventions and The Patents	7
A. The Method or Use Patent	10
B. The Product or Fuel Patent	11
C. The Improvement Patents	11
2. Commercial Background for Utilization	12
A. High Compression Engines	13
B. Existing Refining and Distributing Facilities	14
C. Surgeon General's Regulations for the Sale of Lead-Treated Fuel	16
D. Creation of Consumer Demond, Use of Trademarks, and Control of Quality	19
3. Licenses and Licensing Practices	21
A. Ethyl Licenses	22
B. Licenses for "Q" or So-Called Regular Gasoline	27
C. Licensing Practices	31
4. Business Achievement and Competition	35
5. Opinion, Findings and Decree Below	38
Specification of Errors to Be Urged	42
Summary of Argument	43
Argument	47
I. The defendant corporation has the right under its product and method patents to license jobbers handling its patented fuel	47
A. A patentee may impose any conditions upon the sale of the patented product by its licensees which are reasonably necessary for its commercial development and for securing financial return from the patent	47
B. The licensing of jobbers is proper and the conditions imposed in such licenses are necessary and reasonable	54
1. The refiner licenses were necessary	56
2. Defendant corporation did not use the jobber licensing system to require adherence to refiners' marketing and pricing policies	60
II. Such refusals of licenses to jobbers as occurred were not unlawful	61
III. The decree entered was improper and an abuse of discretion	71

Page

A. Abolishing the whole system of jobber licenses was not necessary to enjoin the exclusion of price cutters 73

B. Abolishing the whole system of jobber licenses will foreclose the protection of admittedly legitimate and essential interests, increasing in importance daily, in public safety and the quality of the patented product 74

Conclusion 80

Appendix 81

CITATIONS

Cases:

American Steel Foundries v. *Tri-City Council*, 257 U. S. 184 74

American Tobacco Co. v. *Federal Trade Commission*, 9 F. (2d) 570 (C.C.A. 2d), *affirmed*, 274 U. S. 543 ..... 64, 65

Armand Co. v. *Federal Trade Commission*, 78 F. (2d) 707 (C.C.A. 2d) 64

Aspinwall Mfg. Co. v. *Gill*, 32 Fed. 697 48

Ayer v. *Federal Trade Commission*, 15 F. (2d) 274 (C.C.A. 2d), *cert. den.* 273 U. S. 759 64

Bauer v. *O'Donnell*, 229 U. S. 1 ..... 48, 64

Bement v. *National Harrow Co.*, 186 U. S. 70 ..... 48, 51

Bliss Co. v. *United States*, 248 U. S. 37 74

Boston Store v. *American Graphophone Co.*, 246 U. S. 8 ..... 64, 70

Carbice Corp. v. *American Patents Corp.*, 283 U. S. 27 ..... 48, 54

Carnegie Steel Co. v. *Cambria Iron Co.*, 185 U. S. 403 10

Cement Mfrs. Protective Ass'n v. *United States*, 268 U. S. 588, 605 63

Chicago Board of Trade v. *United States*, 246 U. S. 231 ..... 49, 62

Coca-Cola Co. v. *Bennett*, 238 Fed. 513 (C.C.A. 8th) 59, 75

Coca-Cola Co. v. *Butler & Sons*, 229 Fed. 224 59

Coca-Cola Co. v. *The Koke Co.*, 254 U. S. 143 58

Columbia Graphophone Co., Ltd. v. *Thomas*, (1924) 41 Rep. Pat. Cas. 294 70

Cream of Wheat Co. v. *Federal Trade Commission*, 14 F. (2d) 40 (C.C.A. 8th) 64

Dr. Miles Medical Co. v. *Park*, 220 U. S. 373 ..... 64, 66

Dunhill, Ltd. v. *Griffiths Bros.*, (1933) 51 Rep. Pat. Cas. 93 70

Eastern States Retail Lumber Dealers Ass'n. v. *United States*, 234 U. S. 600 64

Eibel Process Co. v. *Minnesota & Ontario Paper Co.*, 261 U. S. 45 10

Ethyl Gasoline Corp. v. *Jay-Craver, Inc.*, 4 F. Supp. 264 21

Ethyl Gasoline Corp. v. *Klibanow*, 1 F. Supp. 584 21

Federal Trade Commission v. *Beech-Nut Co.*, 257 U. S. 441 64

Federal Trade Commission v. *Raymond Co.*, 263 U. S. 565 65

Federal Trade Commission v. *Sinclair Refining Co.*, 261 U. S. 463 .... 20, 56

Wm. Filene's Sons Co. v. *Fashion Originators' Guild*, 90 F. (2d) 556 (C.C.A. 1st) 66

	Page
Frey & Son v. *Cudahy Packing Co.*, 256 U. S. 208	64
General Talking Pictures Corp. v. *Western Electric Co.*, 304 U. S. 175, 305 U. S. 124	49
Hague v. *Committee for Industrial Organization*, 59 Sup. Ct. 954	74
Henry v. *A. B. Dick Co.*, 224 U. S. 1	48
Hills Bros. v. *Federal Trade Commission*, 9 F. (2d) 481 (C.C.A. 9th)	64
Huntoon Co. v. *Kolynos, Inc.* [1903] 1 Ch. 528	48
Incandescent Gas Co. v. *Cantelo*, 12 Rep. Pat. Cas. 262, 264	47
International Business Machines Corp. v. *United States*, 298 U. S. 131	76
J. W. Kobi Co. v. *Federal Trade Commission*, 23 F. (2d) 41 (C.C.A. 2d)	64
Leitch Mfg. Co. v. *Barber Co.*, 302 U. S. 458	48, 55
Maple Flooring Mfrs. Assn. v. *United States*, 268 U. S. 563, 578-84	62
Menendez v. *Holt*, 128 U. S. 514	59
Meyerson v. *Hurlbut*, 98 F. (2d) 232 (C.A. D.C.)	66
Mitchell v. *Hawley*, 16 Wall. 544	48
Motion Picture Patents Co. v. *Universal Film Mfg. Co.*, 243 U. S. 502	48
National Phonograph Co. v. *Menck* (1911) A. C. 336	48
Old Dearborn Distributing Co. v. *Seagram-Distillers Corp.*, 299 U. S. 183	66
Palmolive Co., Ltd., v. *Freedman* [1928] Ch. 264	70
Q. R. S. Music Co. v. *Federal Trade Commission*, 12 F. (2d) 730 (C.C.A. 7th)	64
Ralston Purina Co. v. *Saniwax Paper Co.*, 26 F. (2d) 941	59
Rubber Co. v. *Goodyear*, 9 Wall. 788	48
Sarason v. *Frénay* [1914] 2 Ch. 474	48
Seabury v. *Am Ende*, 152 U. S. 561	11
Shakespeare Co. v. *Federal Trade Commission*, 50 F. (2d) 758 (C.C.A. 6th)	64
Smith v. *Snow*, 294 U. S. 1	10
Standard Oil Co. v. *Federal Trade Commission*, 273 Fed. 478 (C.C.A. 2d), *affirmed* 261 U. S. 463	59
Standard Oil Co. v. *United States*, 283 U. S. 163	9, 49, 63,
Standard Sanitary Mfg. Co. v. *United States*, 226 U. S. 20	48
Straight Side Basket Corp. v. *Webster Basket Co.*, 4 F. Supp. 644, 10 F. Supp. 171, 82 F. (2d) 245, (C.C.A. 2d)	49
Sugar Institute v. *United States*, 297 U. S. 553	72
Tilghman v. *Proctor*, 192 U. S. 707	10
Toledo Pipe-Threading Co. v. *Federal Trade Commission*, 11 F. (2d) 337 (C.C.A. 2d)	64
United States v. *Colgate & Co.*, 250 U. S. 300	64, 66, 68
United States v. *Ethyl Gasoline Corp.*, 27 F. Supp. 959	1
United States v. *General Electric Co.*, 272 U. S. 476	49, 51
United States v. *Schrader's Son*, 252 U. S. 85	64
United States v. *Standard Oil Co.*, 173 Fed. 177	72
Virtue v. *Creamery Package Mfg. Co.*, 227 U. S. 8	48

Page

Vulcan Mfg. Co. v. *Maytag Co.*, 73 F. (2d) 136 (C.C.A. 8th), *cert. dis.*, 294 U. S. 736 49
Warner & Co. v. *Lilly & Co.*, 265 U. S. 526 74
Yale Electric Corp. v. *Robertson*, 26 F. (2d) 972 (C.C.A. 2d) 59

Statutes:

Expediting Act of February 11, 1903, c. 544, Sec. 2, 32 Stat. 823, as amended, 36 Stat. 1167, 15 U. S. C. Sec. 29 2
Judicial Code, Sec. 24 (23), 36 Stat. 1093, 28 U.S.C. Sec. 41 (23) 2
Idem, Sec. 238, as amended, 36 Stat. 1157, 38 Stat. 804, 43 Stat. 938, 28 U.S.C. 345 2
Patent and Designs Act of August 28, 1907, Sec. s. 38(1), 7. Edw. 7, c. 29 48
Sherman Anti-Trust Act, Secs. 1, 4, 26 Stat. 209, 36 Stat. 1167, 50 Stat. 693, 15 U.S.C. Secs. 1, 4 ..... 1, 2, 67, 81

Miscellaneous:

Burling and Sheldon, "Price Competition as Affected by The Robinson Patman Act" (1939), 1 *Wash. & Lee L. Rev.* 70
Edgar, "The Manufacture and Use of Tetraethyllead", 31 *Industrial & Engineering Chemistry* (1939) 79
Egloff, "The Cracking Art in 1938", *Universal Oil Products Bulletin*, No. 329 78
Egloff, *Universal Oil Products Company Bulletin* (1936) 36
Federal Trade Commission, *Trade Practice Rules* 33
Haring, "Retail Price Cutting and Its Control by Manufacturers" (1935) 70
Hearings Before the Temporary National Economic Committee on the Petroleum Industry—
Oct. 23, 1939 37
Oct 24, 1939 57
Oct. 9, 1939 57
Oct. 9-25, 1939 ..... 68, 78
Hearings Before Senate Subcommittee of the Committee on Finance on S. 790, 75th Cong., 1st Sess., Feb. 12-17, 1937 78
Hearings Before Senate Subcommittee of the Committee on Mines and Mining on S. 2027, Federal Petroleum Act, 74th Cong., 1st Sess., April 16-17, 1935 78
Hearings Before House Subcommittee of the Committee on Interstate and Foreign Commerce, on S. 790 and H. R. 5366, 75th Cong., 1st Sess., April 27-29, May 3, 1937 78
Hearings Before House Subcommittee of the Committee on Interstate and Foreign Commerce, on S. 1302, H. R. 4547, and H. R. 2308, 76th Cong., 1st Sess., April 26-28, 1939 78
"The Houdry Process," *National Petroleum News*, Aug. 23, 1939 37
Learned and Isaacs, "The Robinson Patman Law" (1937), 15 *Harv. Bus. Rev.* 137 70

	Page
Oppenheim, "Cases on Trade Regulation" (1936)	70
NRA Petroleum Industry Code	33
National Petroleum News, Nov. 8, 1939	36
Nov. 29, 1939	37
Oct. 11, 1939	37
"Process Development Section," *Refiner & Natural Gasoline Manufacturer*, Sept., 1939	37
"Refining Technology," *National Petroleum News*, Jan. 10, 1940	78
Seligman & Love, "Price Cutting and Price Maintenance" (1932)	70

Supreme Court of the United States

OCTOBER TERM, 1939

No. 536

ETHYL GASOLINE CORPORATION, EARLE W. WEBB AND JOHN COARD TAYLOR, *Appellants*,

v.

THE UNITED STATES OF AMERICA

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR APPELLANTS

OPINION BELOW

The opinion of the District Court (R. 43) is reported in 27 F. Supp. 959.

JURISDICTION

This is a suit in equity brought by the United States under Section 4 of the Sherman Anti-Trust Act of July 2, 1890, as amended, 26 Stat. 209, 36 Stat. 1167, 15 U. S. C. Sec. 4, seeking to enjoin appellants from executing or continuing certain agreements and practices alleged to be in restraint of trade in violation of Section 1 of that Act as amended, 26 Stat. 209, 50 Stat. 693, 15 U. S. C. Sec. 1. The district court had

jurisdiction under Section 24 (23) of the Judicial Code, 36 Stat. 1093, 28 U. S. C. Sec. 41 (23).

The final decree of the district court ordering cancellation of certain patent license agreements and prohibiting future acts or agreements was entered on August 14, 1939. (R. 62.) An appeal was allowed by the district court on October 9, 1939. (R. 69.) The jurisdiction of this Court to review the decree of the district court upon direct appeal is conferred by Section 2 of the Expediting Act of February 11, 1903, as amended, 32 Stat. 823, 36 Stat. 1167, 15 U. S. C. Sec. 29, and Section 238 of the Judicial Code, as amended, 36 Stat. 1157, 38 Stat. 804, 43 Stat. 938, 28 U. S. C. Sec. 345. Probable jurisdiction was noted on December 11, 1939.

STATUTE INVOLVED

The text of Section 1 of the Sherman Act of July 2, 1890, 26 Stat. 209, as amended by the Act of August 17, 1937, 50 Stat. 693, 15 U. S. C. Sec. 1, is set out in full in the Appendix.

STATEMENT

This is an appeal from a decree enjoining the defendant Ethyl Corporation from continuing, under its patents on anti-knock motor fuel and the method of using such fuel, to license jobbers to handle the patented product and to require licensed refiners to sell it only to licensed jobbers. The injunction is based on the decision of the lower court that this system of licensing is not necessary to achieve interests of the patentee which it recognized as proper, and was used, in violation of the Sherman Act, to

exclude a small group of price-cutting jobbers from dealing in the patented product.

The defendant corporation has four basic patents on an anti-knock compound, on an anti-knock motor fuel, and on the method of using such fuel in internal combustion engines. The validity of these patents is not in issue. Their commercial development has been made possible by the evolution of a licensing system designed to fit into the existing vast oil refining and automobile manufacturing industry of the United States, attract and hold the good will of motorists for the patented fuel, and insure compliance with safeguards which the Public Health authorities had laid down as essential in the marketing of a dangerous product.

This licensing system embraced the licensing under the product and method patents of both the refiners who manufactured the patented motor fuel and the jobbers who in large part distributed it to the public. It supplemented the trademark identification of the patented motor fuel as the product sponsored by the patentee and produced under its supervision. And, of cardinal importance, the direct jobber licenses afforded the only method which experience demonstrated to be effective of securing on the part of all those handling the patented fuel adherence to the requirements laid down by the Surgeon General of the United States. The keystone of this system is the requirement that sales of the patented product may be made by licensed refiners only to jobbers licensed to distribute it and to authorize the use of the patented method for its employment.

The Government does not attack the validity or scope of the patents. It does not assail the refiner

licenses. It does not question the desirability of protecting the quality of the product from adulteration and dilution or the basic necessity for safeguarding the public health. It asserts that the system of licensing jobbers and limiting refiners to selling only to such licensed jobbers lent itself to use, and was in fact used, for a collateral purpose unrelated to any interest of the patentee—namely, the maintenance of refiners' prices on the patented and other unpatented motor fuels. Specifically, it alleged in its petition that jobbers were required to maintain refiners' prices under threat of cancellation of their individual licenses, and that the issuance of the licenses was conditioned upon prior maintenance of such prices. Because of this alleged misuse the Government asked that all existing and future jobber licenses, and the corollary requirement that licensed refiners sell only to licensed jobbers, be wholly abrogated by injunction. For the protection of the patentee's legitimate interests, which they recognized as lawful, Government counsel urged that as a matter of business judgment there were other and presumably better methods than jobber licenses.

In the court below both litigants were apparently completely confident of their divergent legal positions—the patentee, in its view that it had not exceeded the scope of the patent law in thus conditioning the sale and use of its patented inventions; and the Government, in its belief that there was no legal justification whatever for jobber licenses. Accordingly, the case was presented to the district court on a lengthy Stipulation which contains elaborate, overlapping, and to some extent inconsistent, state-

ments of fact designed to support the respective positions.[1] In addition, certain original materials, such as the patents, license agreements, trademarks, reports, etc., were included as stipulated exhibits.

The learned district judge wrote a lengthy opinion in which he demonstrated the difficulties encountered in resolving the complex questions presented. He concluded that it had not been established that the jobber licenses—issued to over 92% of all of the jobbers—had been used to secure maintenance of refiners' prices. He determined, however, that the refusal of a jobber license had in a few instances been based upon the previous record of the jobber as a price cutter and concluded that this was in violation of the Sherman Act. He further found that the interests which the patentee sought to protect by the jobber license system were legitimate and important. Nevertheless, he accepted the business judgment of Government counsel instead of the recorded experience of the patentee as to whether these interests could be efficiently protected other than by jobber licenses. On this basis, he decreed not an injunction forbidding the particular practices which he deemed to be unlawful but the abrogation of the entire jobber licensing system.

Thereafter the lower court entered findings which incorporated by reference as formal findings of fact

---

[1] In keeping with this theory of presentation, all evidentiary objections were waived except the right to object on the grounds of *relevancy* or *materiality* to the agreed facts. See Stipulation, Introductory Paragraph (R. 18).

by the court all of the materials in the Stipulation and, in addition, certain ultimate findings of fact, presumably derived from the Stipulation upon which it based the injunction. At the same time the court entered a stay order pending determination of the cause in the event of an appeal.

It is appellants' position on this appeal that the jobber licensing system represented the exercise of rights derived from the Ethyl Corporation's ownership of the patents on lead-treated fuel and the method for using the patented fuel, and that the licenses contain only provisions which are reasonably necessary for the commercial development of these patents and for securing financial return from them. It contends that in the negligible number of instances in which the previous pricing policy of the jobber was made the basis for the refusal to license a jobber, the patentee was likewise exercising rights conferred by the patent law, and that the exclusion of a relatively few price-cutting jobbers from the right to deal in its patented motor fuel (and in turn to authorize the employment of such fuel by others under appellants' method patent) did not constitute an unlawful restraint of trade. Finally, appellants contend that, even assuming *arguendo* that the refusal to license a few price cutters was unlawful, there is no warrant whatever for a sweeping injunction abrogating the entire jobber licensing system. The drastic decree is founded on assumptions unwarranted and contradicted by the record. It is unnecessary to prevent recurrence of the few instances of conduct alleged to be unlawful. It hamstrings the patentee in

its commercial development of its inventions under any changed conditions in a dynamic industry. In its use of a judicial broadaxe, the decree is a flagrant abuse of discretion.

The issues thus posed for determination concern an asserted conflict between the patent law and the anti-trust acts. As in most cases under the Sherman Act, the facts in the present appeal are controlling. The degree to which the licensing system was or was not within the patent monopolies or possibly productive of unlawful restraint of trade is dependent upon the scope of the patents, the commercial framework within which they had to be developed, and an understanding of what was done in making the inventions available to the public. We therefore direct the Court's attention to the following summary of the case in which we first examine what was invented and covered by the patents.

1. THE INVENTIONS AND THE PATENTS

In an internal combustion engine, such as that used in an automobile, tractor, or airplane, a gaseous mixture of vaporized fuel and air is ignited by an electric spark and the burning gases expand to push the piston and furnish power. Before ignition this gaseous mixture is compressed in the cylinder by the piston moving upward. The greater the degree to which the gaseous mixture is compressed before being ignited, the higher will be the engine's efficiency —it will develop more power and run longer on a given amount of fuel, or it may be made smaller and lighter for a particular use. (Stip. Fols. 62-63, R. 18-

19).[2] The efficiency and power for size of the present-day automobile engine would undoubtedly be impossible without high compression motors.

Early in the development of the American motor car, however, it was discovered that when a mixture of air and the gasoline then available was subjected to a relatively high compression, a fuel "knock" was produced, the engine heated rapidly, its efficiency was reduced, and, if the initial pressure was very high, engine parts might be injured.[3] (Exh. 3-A, R. 75.) The rapid increase in the number of automobiles aggravated the "knock" problem by multiplying the demand for gasoline, and at the time of the patent applications the tendency was

> "to produce lower grades of gasoline in order to obtain a sufficient output . . . and to reduce the compressions of the engines so that these lower grades of fuel may be used without knocking." (Exh. 3-A, R. 75.)

---

[2] References to the Stipulation will be by folio number and record page; to the accompanying exhibits by record page alone. Unless otherwise noted, italics have been supplied.

[3] The highest pressure at which a fuel may be used without these results is known as its "critical compression pressure." With the development of the art following the inventions under discussion, this pressure has come to be expressed in terms of "octane number." The "octane number" of a fuel, generally stated, is the rating on a convenient arbitrary scale of its critical compression pressure, that is, the compression to which a mixture of such fuel and air may be subjected without causing a "knock" and consequent loss of power in an internal combustion engine. (Stip. Fol. 63, R. 19) The critical compression pressure of a fuel will be referred to in this Brief as its "anti-knock value" or by "octane number."

The lowering of engine compression reduced efficiency[4] and in turn required a greater output of fuel.[5] It likewise meant the costly, large engines under mammoth hoods which once characterized the American motor car.

The basic invention from which the defendant corporation's four patents are derived was the brilliant and completely novel discovery, after years of research, that burning the mixture of hydrocarbon fuel and air in the presence of very small amounts of certain volatile *metallic compounds* would tremendously increase the point to which the mixture could be compressed without knocking.[6] Without reviewing in detail the teaching of the patents, it may be noted that the use of a metallic compound which is both oil soluble and volatile was stated to afford the highest anti-knock value. Among many others disclosed by the patent is the compound tetraethyl lead which has been found most efficient. (R. 76-77.)

---

[4] Engines of high compression may also be made to operate without knocking, on fuels of lower critical compression, by retarding the spark, but this results in loss in both power and economy. (Stip. Fol. 63, R. 19.)

[5] Compare the development of the demand for gasoline in these early years, as summarized by this Court in *Standard Oil Co.* v. *United States*, 283 U. S. 163, 177-178.

[6] The revolutionary character of the invention may be seen from one of the examples given in the patent specifications: A motor fuel having a critical compression pressure of only 75 pounds may be used in an engine having a compression of 160 pounds, and for the same load *twice* the mileage obtained when such fuel is burned in the presence of these metallic compounds. (Exh. 3-A, R. 75-76.)

A. THE METHOD OR USE PATENT

Since the underlying research and basic discovery had to do with what went on inside the cylinder of the internal combustion engine in the compression, burning, and knocking of hydrocarbon fuels, and in the burning of such fuels in the presence of specified metallic compounds, the Patent Office requested a division between product and process claims and allowed a basic method patent, No. 1,787,419. (R. 83-84.) Since the invention could be practised by introducing tetraethyl lead compounds into the combustion chamber or manifold of the engine separately from the gasoline with which it is to be burned (Stip. Fol. 65, R. 20), this patent merely recognized the fundamental character of the discovery. Claim 1 read:

> "A method of utilizing a low compression motor fuel which comprises forming a combustible mixture of the fuel and air, and burning the mixture under a relatively high compression in the presence of vapors of a compounded metallic element." (Exh. 3-D, p. 2, R. 84.)

It is important, in tracing and understanding the commercial development of these inventions, to note that this patent covered the *use by any motorist* in any high compression automobile of an anti-knock motor fuel containing tetraethyl lead. *Tilghman* v. *Proctor*, 102 U. S. 707, 722; *Carnegie Steel Co.* v. *Cambria Iron Co.*, 185 U. S. 403; *Eibel Process Co.* v. *Minnesota & Ontario Paper Co.*, 261 U. S. 45; *Smith* v. *Snow*, 294 U. S. 1.

B. THE PRODUCT OR FUEL PATENT

The product itself, a *fuel* containing a hydrocarbon and an oil soluble volatile metallic compound, was covered by Patent No. 1,573,846. (R. 73-78.) Claims 2 and 21 are illustrative:

> "2. A fuel for internal combustion engines comprising a low compression motor fuel, and an oil soluble volatile compound of a metal adapted to increase the critical compression pressure of the motor fuel."
>
> "21. A fuel for internal combustion engines comprising gasoline; and tetraethyl lead."

This product patent concededly covers the manufacture, sale, and use of any motor fuel consisting of gasoline and tetraethyl lead. It is immaterial that the amount of the latter compound is very small. The *combination* is new and represented at the time a brilliant revolutionary invention. *Seabury* v. *Am Ende*, 152 U. S. 561.

C. THE IMPROVEMENT PATENTS

Further research resulted in two other patents, applications for which were filed one and three years later. It was found that the lead oxide resulting from the burning even of minute quantities of tetraethyl lead might flux with and have a deleterious effect upon spark plugs, valve stems, and other motor parts. These two patents cover the invention under which various halide compounds (i. e., chlorides and bromides) are additionally used with the anti-knock ingredients so that when the lead compound is burned the product formed by combustion (*e. g.*, lead bromide) will not cause these injurious effects. The

claims of these two patents cover both the fuel containing tetraethyl lead plus these halides, as well as the so-called "*fluid*," a mixture of tetraethyl lead and these other compounds in a convenient form to be added to gasoline or kerosene to form the patented fuel.

2. COMMERCIAL BACKGROUND FOR UTILIZATION.

Industrial development, even of patented methods or products, cannot be divorced from the markets in which they can find use. *Theoretically,* defendant corporation upon its organization might have licensed every motorist who desired to use anti-knock fuel in his motor car.[7] *Theoretically,* it might itself have manufactured the patent fuel, by refining or buying gasoline and blending it with anti-knock fluid, and then have sold the product in competition with existing refiners. But the practical choice and the licensing methods developed, however, resulted from the combination of (a) the need for encouraging the manufacture of automobiles with high compression engines; (b) the economic desirability of using the existing and abundant refining and distribution facilities in the oil industry; (c) the unfortunate development of public apprehensions as to the safety of its product and the issuance of regulations

[7] Indeed, this was one of the earliest approaches to the problem, and the same inventor secured a patent for an injector mechanism to be attached to each motor car so that "the desired result may be accomplished by injecting the anti-knock material into the combustion chamber immediately before combustion takes place." United States Patent No. 1,501,568. It turned out that the toxic nature of tetraethyl lead, however, would have made the use of this method dangerous to the public.

by the Surgeon General of the United States; and (d) the necessity for creating an independent consumer demand and for ensuring, through trademarking and protection from adulteration and misbranding, public confidence in the patented product to be sold at a slight premium over regular motor fuel. The aim was to make its discoveries early and widely available to the public at a reasonable price in the expectation that a small unit return would aggregate an adequate reward. Thus the public interest in early use of the inventions and the patentee's interest coincided.

A. HIGH COMPRESSION ENGINES

The patented fuel for use under the patented method was valuable particularly in high compression engines. Largely to the extent that the defendant corporation could encourage the building of motor cars with such engines would the public be able to take advantage in increased power and mileage economy of the discoveries patented. Motor car manufacturers obviously would not design, make, and sell automobiles adapted to use anti-knock fuel of a high octane number unless there was a supply of such fuel available throughout the land at a reasonable price. Certain it was that they would not make a car which the purchaser could not efficiently use unless he secured a license directly from defendant corporation. These conditions dictated that the patented fuel be made rapidly and widely available, at a premium not substantially in excess of ordinary fuel, and that in some fashion the purchase of such fuel impliedly carry a license to employ it under the patented method.

B. EXISTING REFINING AND DISTRIBUTING FACILITIES

Although the new fuel was revolutionary in effect, at the time of its invention there existed a highly organized major industry for the manufacture and distribution of ordinary gasoline. There were refiners of gasoline who sold directly to the public under their own trademarks and through their own retail outlets. These refiners also sold to jobbers in tank car lots and to independent retailers in tank wagon lots. The jobbers maintained bulk storage facilities from which they distributed gasoline to their own retail outlets and to independent service stations. The refiners were thus manufacturers, wholesalers, and retailers. The jobbers of whom there were about 12,000 distributing a substantial part of American motor fuel, were in turn both wholesalers and retailers. (Stip. Fols. 70-71, R. 24-25.)

Apart from the difficulties of public health protection and quality control (discussed below), it was obvious that the distribution of the patented lead-treated fuel, and the implied licensing under the use patent, could be economically achieved only by utilizing these existing facilities. There was ample refining and mixing capacity. For defendant corporation to have constructed additional facilities for blending gasoline purchased from refiners, or to have manufactured its own gasoline, would have been wasteful and would have increased the cost of lead-treated fuel. Moreover, the manufacture of tetraethyl lead was a difficult and, it was later shown, a dangerous operation. While the mixing of anti-knock ingredients with gasoline to form the patented fuel was simpler, there were major health hazards in

handling the anti-knock ingredients. These, as well as the technical necessity for preventing mixture of the fluid with certain unsuitable or corrosive types of gasoline (*e. g.*, containing excessive sulfur or gum or of inadequate volatility, etc., R. 104-05, 113-14) made it clear that close control would be necessary over the mixing operation to form the patented fuel.[8]

These considerations made it clear that the most economical and efficient method for making a supply of the new patented fuel available to the public would be to utilize through some licensing system the existing refining and distributing facilities. In doing so some method for ensuring the quality of the patented product—which would sell at a slightly higher price than other unpatented fuel—would be necessary. But of prior and primary importance in determining how to use the existing distribution machinery was the impact of the public health controversy which resulted in regulations necessitating control not only of the manufacture of anti-knock compound and mixture to make the patented fuel but also the handling of such fuel right down to the point of retail sale.

---

[8] Such mixing or blending of the anti-knock compound with gasoline to form the patented fuel at filling station pumps had been a very early practice. (Stip. Fol. 65, R. 20.) But not only was the quality of the fuel produced hard to control, but it also developed later that the public health regulation, discussed below, would preclude mixing or blending at either retail filling stations or jobbers' bulk storage plants. (R. 86-100, 131-36.)

C. SURGEON GENERAL'S REGULATIONS FOR THE SALE OF LEAD-TREATED FUEL

Almost at the outset of its operations, the Ethyl Corporation became involved in a public health controversy as to the effect upon the public of the patented fuel so serious that the corporation voluntarily discontinued the sale of anti-knock compound from May 5, 1925 to June, 1926. The details of the studies made and conclusions reached are fully set out in the Stipulation (Fols. 75-85, R. 27-34). They may be briefly summarized.

Some cases of lead poisoning occurred in the early manufacture of tetraethyl lead and the concentrated fluid in which it was embodied. These cases were given wide newspaper publicity and the newspapers made no distinction between the public health problem involved in the manufacture of these products and the use of them in motor cars (Stip. Fol. 75, R. 27).

The Ethyl Corporation enlisted the aid of the United States Bureau of Mines and of Columbia University. In addition, through its own medical department (which is still maintained), it undertook extensive research. While these investigations were in process, the public clamor caused the Surgeon General of the United States to call a conference of representatives of labor, authorities on industrial health and hygiene, physiologists, physicians, and representatives of defendant corporation, to investigate the problem. Meanwhile, the corporation, as already noted, voluntarily discontinued its business. By resolution of the conference, a committee of seven authorities in clinical medicine, physiology and industrial hygiene was appointed by the Surgeon Gen-

eral to study and report on the problem, the investigation to be paid for exclusively out of public funds (Stip. Fols. 76-77, R. 28-29).

On January 17, 1926 the Committee reported that there were no grounds for prohibiting the use of treated gasoline in which the content of tetraethyl lead did not exceed three cubic centimeters per gallon, the maximum theretofore used, "*provided that its distribution and use are controlled by proper regulations*" (Fol. 79, R. 30), and suggested that the formulation of the regulations was the duty of the Surgeon General (Stip., Fols. 78-80, R. 30-31). The Committee stated that it recognized that its conclusions were subject to criticism because its study was confined to the effect of the limited use of lead-treated gasoline which had taken place and that the use of such a motor fuel over a long period of time might result in harmful physiological consequences of which there was no present evidence. The Committee therefore recommended that the study of the matter be continued by the Surgeon General (Stip., Fol. 80, R. 30).

The Surgeon General thereupon promulgated regulations with respect to the manufacture of the lead fluid, its blending with gasoline, and its distribution and sale to the motoring public. Of particular interest on this appeal are the regulations limiting the maximum concentration of tetraethyl lead in the patented gasoline, requiring that the treated gasoline be colored so as to deter individuals from using it for cleaning or other similar purposes, that employees be periodically examined, that defendant should maintain a corps of inspectors and service

men, that specified lead warning signs be used at filling stations, and on any retail containers sold to the general public at such stations, and that leaflets be made available and certain precautionary notices posted. (R. 130-42.)

The Ethyl Corporation assured the Surgeon General that it would abide by these regulations and it has consistently done so, also requiring compliance by its licensees (Stip., Fols. 80-81, R. 31; Ex. 9-A, R. 103; Ex. 9-B, R. 111-12; Ex. 13-A, R. 124-25; Ex. 13-B, R. 127-28). To obtain direct control and the right to inspect, to examine employees and equipment, and to ensure compliance, defendant found it necessary to license not only refiners but also jobbers handling its patented fuel.[9] The United States Public Health Service has at all times since the publication of its proposed regulations manifested an active interest in the compliance by defendant corporation and members of the petroleum industry with these regulations.[10] (Stip., Fol. 81, R. 31.)

---

[9] It is also interesting to note that the British Ministry of Health conducted a similar investigation and permitted the patented fuel to be used "*so long as the terms of the contract between the proprietors of the fuel and the distributors in this country secure the continued observance of certain precautions*", the precautions being warning signs on cans and pumps, coloring the gasoline, and limiting the maximum concentration of tetraethyl lead (Stip., Fols. 83-84, R. 33-34). This in effect *requires licensing* of jobbers as well as other distributors.

[10] In the court below the Government sought in two ways to minimize this vital problem of public health protection. First, it was suggested that "the health requirements are not those of the Surgeon General but are requirements of the defendant corporation voluntarily adopted by them upon the recommenda-

D. CREATION OF CONSUMER DEMAND, USE OF TRADEMARKS, AND CONTROL OF QUALITY

Finally, even after clearing the hurdle of securing compliance with public health regulations, the defendant corporation had several other important factors to consider in formulating a system to secure a return on its basic patents. We have already discussed the reluctance of manufacturers of automobiles to make a high compression car unless there was an adequate distribution of reasonably priced patented fuel for such engines. In addition to persuading manufacturers to produce lighter engines of high compression, it was also necessary to educate the public on the advantages and economics of the patented fuel to use in such cars so that it in turn would demand high compression engines from the manufacturers. Extensive advertising was required, and to have meaning, that advertising had to relate to the

---

tion of that official." Brief, p. 75. Aside from the lack of moral authority in this suggestion, it might be pointed out that a product condemned by the Surgeon General has little commercial chance to survive even if the manufacturer were sufficiently lacking in integrity to seek to market. (Here there was voluntary discontinuance until approval and a splendid example of government-industry cooperation afterwards.) Compliance with the regulations was and still is a prerequisite to securing any return from the patents. Second, the Government, though conceding the necessity for rigid control of mixing operations, suggests that because no cases of poisoning from lead treated fuel were found, *while the retail regulations were in effect*, there is no health hazard with respect to lead-treated fuel. This point will be developed in the Argument, *infra*, pp. 56-58, but the fallacy in the premise should be apparent: Simply because the regulations have operated successfully to forestall injury to the general public is no valid reason for assuming that the precautions required are unimportant.

trademark under which the patented fuel would be distributed to the public. Trademark identification was likewise necessary because the patented fuel would sell at a premium over other gasoline.

Here again commercial realities controlled development. Gasoline is not sold in sealed original containers. When sold by refiners through their own retail outlets, it was and is largely marketed under the refiners' own brands.[11] Frequently, the jobber is in turn licensed to use the refiner's trademark and, occasionally, jobbers have their own trademarks. But throughout the entire commercial movement from refinery to motorist's automobile, gasoline was and is purchased, stored, and delivered in bulk, with opportunity for deterioration and accidental or intentional adulteration or substitution. It was known that the patented lead-treated gasoline deteriorates with prolonged storage. (Stip., Fol. 88, R. 36.)

Consequently, defendant corporation had at the outset two practical problems: To identify its patented product with some common denominator or trademark symbol; and to protect the product sold under that trademark against adulteration and deterioration. For the purpose of developing, by its advertising, good will in lead-treated gasoline apart from the trademarks of refiners and jobbers, the defendant corporation adopted as the symbol of its good will the now familiar word "ETHYL" displayed in a distinctive design as a trademark. This mark was widely advertised and required to be displayed on all retail pumps dispensing the patented

[11] Compare *Federal Trade Comm.* v. *Sinclair Refining Co.*, 261 U. S. 463.

fuel.[12] Along with it was displayed the warning signs required by the Surgeon General's regulations. In time the latter came equally to symbolize the defendant's patented product. (Stip., Fol. 95, R. 41.)

To protect the patented product against adulteration, substitution, and deterioration (as well as to insure the essential compliance with public health regulations) defendant adopted as part of its licensing system the licensing of jobbers. This system of licenses, including the jobber licenses under attack, warrants consideration.

3. LICENSES AND LICENSING PRACTICES

Upon resuming business in 1926 the defendant Ethyl Gasoline Corporation developed its licensing system to exploit its patents against the background we have summarized. It should be noted at the outset that throughout this proceeding the Government has not questioned any license provision in the refiner licenses other than the limitation that sales to jobbers may be made only to licensed jobbers. Nor has it questioned any provision in the jobber licenses. Its sole charge of unlawful conduct relates to practices in issuing or renewing jobber licenses. An understanding of what is charged as unlawful, how-

[12] The trademark design, which includes defendant corporation's name and address, has been registered under federal and all but one of the forty-eight states. (Exh. 25-A-F; R. 188-93), has been both widely advertised by defendant and refiner-licensees, (Stip. Fols. 94-96, R. 41) and has been recognized by the courts. "The amount of money expended by complainant in pictorial and display advertising for universal circulation is tremendous." *Ethyl Gasoline Corp.* v. *Klibanow*, 1 F. Supp 584; see also *Ethyl Gasoline Corp.* v. *Jay-Craver, Inc.*, 4 F. Supp. 264.

ever, requires knowledge of the license provisions and the practices of the defendant corporation.

A. ETHYL LICENSES

Refiners. (Ex. 9-B, R. 109-18.) To utilize existing distributing facilities and at the same time maintain close supervision of hazardous mixing of the components of the patented fuel, the defendant corporation itself manufactured the anti-knock fluid and sold it to refiners whom it licensed. The license specified elaborate safety requirements for the mixing of lead-treated gasoline and its distribution. Equipment and mixing system were prescribed by the licensor.[13] Licensees agreed to abide by the regulations of the Surgeon General or any other governmental agency. They agreed that in reselling they would require pur-

[13] "... the fluid is added to gasoline by means of carefully designed equipment which accomplishes the unloading and mixing operation through a closed system entirely by vacuum for the purpose of decreasing or eliminating possible health hazards due to spillage of tetraethyl lead in concentrated form. The building and machinery constituting the plant by which the fluid is unloaded, handled and mixed by the refiners with gasoline are required by defendant corporation to be built in strict compliance with blueprints submitted to and approved by defendant corporation. A typical plant is illustrated by Exhibits 6-A and 6-B attached hereto. The average cost of such a plant and equipment is around $10,000. Defendant corporation further requires that the process of handling and mixing fluid be carried out in accordance with its printed regulations, a copy of which is attached hereto as Exhibit 6-C [R. 85-100]." (Stip. Fols. 70, R. 24). The elaborate blueprints of the required refinery mixing system were not printed in the record on appeal but are available for examination in the original papers in this Court.

chasers to obligate themselves similarly to comply, and in turn to impose a like obligation for any and all subsequent sales or resales. (Exh. 9-B, R. 112.) The aim was to secure by contracts running to and through all handlers agreements to adhere to these essential health requirements. (Exh. 14-A-D, R. 130-42.) (Unfortunately, as the lower court remarked in its opinion (R. 54), the refiners were not particularly effective in enforcing these obligations and direct supervision and inspection by the Ethyl Corporation had to be developed. (Stip., Fol. 82, R. 32.)) The refiner license further provided for continuous inspection of equipment by the licensor, the making of repairs required by the latter, and the medical examination of employees and treatment prescribed by the licensor's medical department. (Exh. 9-B, R. 112, *cf.* Stip., Fol. 76, R. 28.) In keeping with the Surgeon General's regulation, the maximum amount of tetraethyl lead which may be added is limited to three cubic centimeters per gallon of gasoline. (R. 114.)

Refiners are next subjected to a series of requirements to insure quality. The patented fuel manufactured must be at least "equal in anti-knock value to the standard Ethyl Gasoline" as fixed by defendant corporation. (Exh. 9-B, R. 113.) At the time of the Stipulation this standard was fixed at 76 octane which was very high. (Stip., Fol. 72, R. 25.)[14] The refining licenses also contain detailed specifications as to the gasoline to be used—the distillation residue, sulfur content, gum-producing substances, and cor-

[14] As noted below, this standard has since been raised as competitive anti-knock fuels were developed.

rosion characteristics—and defendant corporation as licensor reserved the right to sample, test, and reject gasoline both before and after admixture with the anti-knock fluid. (R. 112-113.) The refiner also agreed to use its best efforts to insure that all Ethyl gasoline sold directly to consumers or through resellers, would conform to these quality standards.

With respect to trademarks, the refiner agreed to sell the patented fuel only under a name consisting of its own tradename followed by "ETHYL GASOLINE"[15] in a form satisfactory to licensor. Refiners were likewise required to obligate all purchasers for resale (except other refiners and jobbers having their own brand names) to conform to these trademark requirements. (R. 115.) Finally, the refiner agreed to advertise and "push" the sale of the patented fuel under the trademark prescribed. (R. 115.)

Of particular interest in this suit are the limitations in the refiner license. The patented product may be sold to other licensed refiners, to the consuming public, to retail dealers, and to licensed jobbers. But it may not be sold to other licensed refiners unless both the seller and the purchaser guarantee that when resold under the latter's brand name it will conform to the prescribed standards—thus enabling the licensor to fix responsibility for poor quality.[16]

---

[15] All licensees but one use this name. The one employed the name "Esso" for the patented fuel, but in this case, as in all others, the defendant corporation's registered trademark had to appear on the retail pump. (Stip., Fol. 93, R. 40.)

[16] The refiner may also sell to other refiners licensed to sell but not to manufacture—thus enabling small refiners unable to afford the expense of equipment and supervision to acquire

The points at which the patented fuel may be manufactured are specified—in order that the licensor may inspect, test, and insure compliance with health requirements. The *price* is not fixed but the patented fuel must be sold *by the refiner* at a fixed premium over the refiner's best non-premium gasoline. There is a specific exclusion of any effort to control or affect the resale price in the hands of jobbers or retailers to whom the refiner sells the product. The Government does not question the license provisions imposing these price differential requirements in sales by refiners and there is no suggestion of any attempt in the refiner license agreement to control resale prices of jobbers or retailers. (R. 110.) Lastly, the refiner license limits sales to jobbers only to jobbers holding a license—which is the single provision under attack.

It should be noted in passing that there is *no agreement* concerning this limitation. The refiner-licensee is simply given no authority to sell to an unlicensed jobber. The refiner does not agree to refrain from doing so. It is a *limitation in* his license. Similarly, the licensor does not agree in any way to impose a like limitation on other refiner-licensees (though in practice it does so) and does not undertake to license or refrain from licensing particular jobbers. The validity of this *condition* in the refiner license is thus dependent—if it may be at all

---

the patented lead-treated gasoline for sale under their own Ethyl brands. Sales to consumers are not limited. Sales to retail dealers must be in less than tank car lots—which meant that in directly supplying retail dealers from tank wagons the refiner could check on the use of the required warning signs on the retail pumps.

questioned—upon what is required in the jobber license and upon the practices in issuing, renewing, or revoking such jobber licenses.

Jobbers. (Exh. 13-A, R. 124-26.) None of the provisions of the jobber license itself are assailed as improper. The Government, however, questions their necessity and likewise challenges the right to require any license of a jobber. To summarize the principal provisions of the jobber licenses: The license is issued not only under the patent covering anti-knock fuel but also specifically refers to and is based upon the method or use patent. (The legal effect of this reference will be considered in the Argument, *infra* pp. 54-55.) Most of the jobbers license requirements relate to insuring compliance with the Surgeon General's regulations. Indeed, attached to the face of each jobber license was a summary of the regulations. (R. 124.) The jobber's agreement to comply with the regulations, to permit medical examination of employees by the licensor, to supply lead warning signs to retailers and safety rules for handling by their employees, and to cancel contracts with retailers who fail to follow these safety rules, are obviously necessary. Territorial limitations prevent the sale of odd lots beyond the jobber's normal sales area in which he can determine whether the required lead warning signs are in place and the use of labelled containers carried out. The agreement not to dilute the patented product sold under the "ETHYL" trademark and to require that no purchaser dilute or permit its deterioration are necessary to protect the quality of a premium product. Finally, the require-

ment that the jobber furnish the licensor with a list of all points at which the patented fuel sold by it is sold, is obviously designed to enable th licensor to trace the source of diluted or adulterated gasoline and to check the maintenance of the warning signs, the use of proper containers, the availability of pamphlets, and any alleged cases of lead poisoning, etc.

B. LICENSES FOR "Q" OR SO-CALLED REGULAR GASOLINE.

By the spring of 1933 the use of a motor fuel of high octane rating was a commercial success and a demand arose for using the properties of tetraethyl lead in a wider range of gasoline than the premium priced product then sold under the Ethyl trademark. Accordingly the defendant corporation determined to license the use of the patents in the production of lead-treated fuel of the next best, *i. e.*, non-premium grade. In so doing it naturally followed the licensing system which had successfully for seven years enabled it to secure rigid compliance with the Surgeon General's regulations and to prevent adulteration of the patented fuel in its bulk sales by jobbers. Since the trademark "ETHYL" had come to be associated with highest type premium gasoline on the market, it could not intelligently authorize sale of the next best non-premium fuel under the same name. And since by that time the public through constant advertising and observation of the "lead" sign had become familiar with the properties of tetraethyl lead compound as an anti-knock in the patented fuel, the Ethyl Corporation expanded its advertising to bring home to motorists the availability of both

grades possessing similar, but not equal, anti-knock properties."[17]

For this product it adopted the name "Q" gasoline under which it promoted its use by owners of truck, taxi, bus and like fleets. (Stip., Fol. 94, R. 40-41.) It likewise licensed both refiners and jobbers. In general these licenses followed the original Ethyl licenses.

Refiner's "Q" License. (Exh. 9-A, R. 101-08.) Health requirements, as to equipment, medical su-

[17] In this connection the Stipulation recites: "Exhibit 25-H, attached hereto, comprises copies of advertisements published by defendant corporation in various magazines and newspapers, some of circulation to farmers and in rural districts, and others of urban and general circulation; the advertisements in Exhibit 25-H, which were published as appearing thereon, being representative of many similar advertisements,—similarly referring to the defendant corporation's manufacture of anti-knock fluid and tetraethyl lead, for regular gasoline,—which have been similarly published by defendant corporation in the years 1934, 1935 and 1936 and also since 1936. On occasion, filling station attendants, garage proprietors and workmen, automobile dealers and mechanics, and others having to do with the sale or recommendation of gasoline, have advised members of the gasoline purchasing public that regular gasoline, as dispensed from pumps containing the lead warning sign, is 'just about the same as Ethyl gasoline', or contains the same anti-knock ingredients as Ethyl gasoline, or contains lead 'made by the Ethyl Gasoline people', or is 'like Ethyl gasoline', or contains lead like Ethyl gasoline; or have otherwise passed on to the public, by word of mouth, their knowledge or belief that regular gasoline, dispensed from pumps containing lead warning signs, is related in some manner to Ethyl gasoline or to defendant corporation." (Stip. Fols. 94-95, R. 41.) In the printed record only a few typical advertisements have been reproduced. The wide range of advertising can be seen in the full set in the original papers.

pervision, adherence to the Surgeon General's regulations, maximum amount of tetraethyl lead to be used, etc., were identical with those in the earlier licenses. To maintain the distinction between the Ethyl premium grade and the "Q" or regular grade, the license limited the octane rating of the product to 70. The specifications as to the quality of the component gasoline with respect to residue, sulfur content, corrosive effect, gum, etc., and sampling and testing by licensor were identical (Compare R. 104-05 and R. 113), and it was specified that the gasoline should be the refiner's highest priced motor fuel below the refiner's Ethyl grade. (R. 102.) In practice the octane rating of so-called lead-treated regular gasoline has ranged between 68 and 70 which is conceded to be a high rating. (Stip. Fol. 73, R. 25; Fol. 85, R. 34.) The regular lead-treated motor fuel was required to be dyed or colored to permit identification. Finally, it was specified that jobber sales could be made only to licensed jobbers.

Jobbers "Q" License. (Exh. 13-B, R. 127-29.) Except for the absence of provisions concerning the use of the Ethyl trademark, the jobber license for "Q" or regular gasoline was substantially the same as the jobber license for Ethyl. (See *supra* pp. 26-27.) The Government has, however, throughout the proceeding suggested that the only important health regulation with respect to jobber handling of "Q" or regular gasoline is the required use of lead warning signs on retail pumps and containers, the importance of which is not questioned. Without at this point discussing whether counsel's or the lower court's assumptions as to how compliance with these warning sign requirements can be obtained, we call

attention to what experience and this record show as to safety supervision of the storage by jobbers of lead-treated gasoline.

> ". . . defendant corporation also maintains a *safety department,* which consists of supervising officials and a number of field men who devote their entire time to the safety work of this department. That work includes: . . . *supervision of the cleaning of tanks, including jobbers' storage tanks,* which have been used for storing leaded gasoline, both Ethyl *and regular;* ascertainment and investigation of various possible lead hazards . . ." (Stip., Fol. 82, R. 32.)

There can be no dispute on the record as to the necessity for detailed jobbers license provisions relating to public health[18] and the protection of the patented product against substitution, dilution, or adulteration in the hands of jobbers.[19]

---

[18] "A number of instances have been found where jobbers or their retail dealers have been selling treated gasoline, *sometimes Ethyl and sometimes regular,* through pumps which did not carry lead warning signs . . . .; and defendant corporation, particularly through its field representatives, has made it a practise to investigate such instances and to endeavor to prevent the occurrence or recurrence of the same on the part of licensed jobbers or their dealers." (Stip. Fol. 85-86, R. 34-35.)

[19] Similarly, the Government attempts to minimize the jobber license prohibitions against adulteration or dilution of regular gasoline. While dilution of regular is less frequent than dilution of Ethyl, the Stipulation clearly indicates that despite the license provision and constant checking, dilution and adulteration of the patented regular gasoline does occur. (Stip. Fol. 85, R. 34.)

The Government insists that the jobber licenses, when taken together with defendant corporation's practices in licensing jobbers, constitutes an unlawful restraint of trade.

Issuance of Jobber Licenses. It is stipulated that out of a total of 12,000 jobbers in the United States, 11,000 or about 92 per cent *were granted licenses.* (Stip., Fols. 74-75, R. 27.) What about the other 8 per cent? First, there is no information in the record as to how many applied for a license. We are told that several large refiners do not sell the patented Ethyl or in some cases patented regular gasoline, (Stip., Fols. 68-69, R. 22-23) and hence their jobber customers do not need licenses. Secondly, as to the remainder the Stipulation recites

> "*Some* applications for Ethyl jobber licenses and *a few* for regular gasoline jobber licenses have been refused because the volume of business of the jobber was not sufficient, in the opinion of defendant corporation, to move the gasoline with sufficient rapidity to avoid deterioration in storage. *A number* of jobber licenses have been refused because in the opinion of defendant corporation the physical equipment of the jobber lent itself to the actual or accidental mixing of different grades or brands of gasoline or because in the opinion of defendant corporation the retail outlets of the jobber were shabby or disreputable in appearance or location, or because in the opinion of defendant corporation the jobber's reputation in his community was bad, or because in the opinion of defendant corporation the jobber had a record of tax evasion, dilution, substitution; or misbranding. Employees of defendant corporation would testify

that in passing upon applications for jobber licenses they were guided by their respective individual judgments as to what was in the best interests of the corporation in reference to the good will of the corporation with its refining licensees or the public." (Stip., Fols. 88-89, R. 36-37).[20]

Presumably if there is any right to determine to whom a patented and trademarked product may be sold, there is no objection to refusal on these grounds.

As to the remaining jobbers—that is, that portion of the 8 per cent, who were not licensed, remaining after we deduct the unknown number who never applied for licenses and the unknown number described variously as a "few," "some," and a "number," who were refused licenses for obviously proper reasons—the Stipulation adds the further, but unfortunately vague, information:

---

[20] It is also elsewhere stipulated: "The defendant corporation has *in some cases* refused a license to a jobber who desired to change his source of supply upon the ground that such jobber was, or was claimed by the refiner-supplier to be, under contract to purchase his Ethyl or regular gasoline from an existing refiner-supplier, and that the request, if granted, would in the opinion of the defendant corporation have breached such contract or claimed contract. *In a few of these cases* the jobber has contended that his contract with the existing refiner-supplier had already been abrogated or for other reasons was not enforceable against him." (Stip. Fols 92-93, R. 39.) When it is noted that only jobbers selling under the *refiner's brand* were required to buy from a particular refiner, and that all others could buy from any licensed refiner they pleased (R. 39), this comes down to saying that the defendant corporation refused "in some cases" to interfere in a controversy between refiner and jobber lest it be charged with inducing a breach of contract. This is hardly the substance of an unlawful restraint of trade under the Sherman Act.

> "The greatest number of jobber applicants who were denied licenses were turned down on the basis of adverse findings of field representatives as to 'business ethics'." (Fol. 88, R. 36.)

Further breaking down this remainder, the Stipulation later recites:

> "Defendants *have refused to issue* licenses to *a number of jobbers* who, investigation showed, were not abiding by the marketing policies prevailing or ostensibly prevailing in the industry or who were not maintaining the retail prices on gasoline posted generally in the industry or whose retail dealers were not maintaining said prices." (Fol. 90, R. 37.)

That the latter grouping of price cutters subdivided the former total groups of those refused because of "business ethics," is shown by the district judge's observation that "although the stipulation of facts defines 'business ethics' as including the 'marketing policies and prevailing prices of the petroleum industry,' it does not state that 'marketing policies' or 'marketing practices' are synonymous with 'price policies.'" (R. 52.) Indeed the record shows that they are not, since, by Trade Practice Conference Rules and the NRA Petroleum Industry Code, many unethical marketing practices and policies—such as stimulation of sales by lotteries, substitution of brands, fictitious rentals of equipment to retailers—had been condemned in the industry.[21]

[21] Exhibits 23-A, 23-B, and 23-C, referred to in Paragraph 23 of the Stipulation (R. 39). These Federal Trade Commission proposed and approved Trade Practice Rules and the NRA Petroleum Industry Code of Fair Competition, being public documents, have been omitted from the printed record, but are readily available in the original papers.

It is further shown by the Stipulation that the "number" of jobbers who had been denied licenses as price cutters did not include all who fell in that class and that refusal of licenses on this ground was not a general policy. For, using precisely the same quantitative expression employed above, the stipulation recites:

> "Defendants *have issued* licenses to *a number of jobbers* who, investigation showed, were not abiding by the prices prevailing or ostensibly prevailing in the industry or who were not maintaining retail prices on gasoline posted generally in the industry or whose retail dealers were not maintaining said prices prevailing or ostensibly prevailing in the industry." (Fol. 90, R. 38.)

In short, the refusals of licenses which bear the brunt of the Government's attack, and the entire criticism of the district court—that is, those based upon price cutting—constitute a mere fraction of a fraction of the unlicensed jobbers, who in their entirety amount to only 8 per cent of all jobbers. These instances were apparently balanced, so far as quantity can be deduced from the stipulation, by licenses granted to other jobbers who had engaged in the same practices.

Alleged Price Maintenance. The Government contended below that the investigations of the licensed jobbers—constituting 92 per cent of all those in the United States—had been used not to protect quality and secure compliance with the Surgeon General's regulations but to secure maintenance of refiners' prices on threat of cancellation.

On this point the stipulation recites:

> "Jobber licenses have not been cancelled because of the failure of a jobber to maintain the policies, practices, and prices of the major oil companies or market leaders." (Stip., Fol. 92, R. 39.)

And also:

> "Defendants have not issued any statement or instructions to the effect that they would cancel licenses for such reason [price cutting], and there has been and is a great deal of cutting of prices below the posted prices on the part of licensed refiners, including major oil companies, and licensed jobbers." (Fol. 89, R. 37.)

Moreover, not only have licenses, as already stated, been issued to jobbers who were cutting prices, but as the district judge stated, and specifically found, "there has been and is a great deal of price cutting on the part of licensed jobbers, yet licenses have not been cancelled for that reason." (R. 51, Finding 14, R. 60.)

The district court refused to find for the Government on its charge of price maintenance. (R. 60.)

4. BUSINESS ACHIEVEMENT AND COMPETITION

Almost 65 per cent of all motor fuel sold in the United States is the combination of hydrocarbons and anti-knock compounds covered by the patent.[22]

---

[22] Here again, on the statistics of use, the stipulation is not clear. Refiners who produce 88 per cent of all gasoline have been licensed. But of these, two major producers—Shell and American Oil—do not use the patents on their whole production. Thus

This highly successful commercial development of the patented fuel appears to furnish much of the basis for the Government's contentions. Yet it evidences, not unlawful conduct, but the magnificent contributions made by these inventions to lighter weight and more efficient engines, better automobiles, and greater mileage per gallon of fuel.[23]

These inventions have had a double effect in stimulating the refining industry to dynamic development. First, by creating the high compression engine they have made a tremendous market for fuel of high octane rating. Secondly, they have opened a

---

the total potential production of licensed users is some undisclosed amount below 88 per cent. The Stipulation further shows that between 70 per cent and 80 per cent of the gasoline produced by these actual users is under the patents. (Fol. 73, R. 26.) 75 per cent of 88 per cent is 65 per cent which represents the maximum amount of lead-treated gasoline produced without taking into account the fact that two major producers, Shell and American Oil, though licensed, do not treat all of their gasoline under the patents.

[23] "In the past 15 years the number of motor cars has increased from about 9,000,000 in 1920 to more than 26,000,000 as of January 1, 1936; while the motor-fuel consumption increased from 109,000,000 bbl. to more than 432,000,000 bbl. per year. In addition, the average motor compression ratio increased from 4 to 6.2. This is of tremendous significance from an economic standpoint, in that the efficiency of motors has increased more than 30 per cent during this period. Speeds of transportation have more than doubled, primarily due to improved anti-knock value of the gasoline and better design of motors thereby made possible." Egloff, Gustav, *Universal Oil Products Company Bulletin*, 1936, page 197. In the 1940 automobile models the average compression ratio of standard equipment has again increased. See *National Petroleum News*, Nov. 8, 1939, p. 59.

wholly new field for inquiry as to how such a fuel may be produced.

It is stipulated that by developments in the cracking process refiners have discovered how to increase the anti-knock value of gasoline without using these patents. (Stip., Fols. 67-70, R. 21-23.) Since April, 1938, when the Stipulation was signed, new commercial refining methods have led to the sale of unpatented gasoline of octane rating equal to the Ethyl grade of the patented fuel.[24] This in turn has led to an increase in the standard prescribed by the licensor for the patented fuel, the minimum octane rating of Ethyl now being 78. With higher test gasoline available, even lighter and more efficient motorcars can be manufactured.

It is clear from the Stipulation (Fol. 63, R. 23) that the refiners are governed in the use of the pat-

[24] Developments in this two-year period, particularly in the field of catalytic, as distinguished from thermal, oil cracking, have excited the industry. These methods are now in the commercial stage. See "The Houdry Process", *National Petroleum News*, Aug. 23, 1939, pp. R. 346-67; "Process Development Section" of *Refiner & Natural Gasoline Manufacturer*, Sept. 1939, (describing over twenty processes which had come into use in the preceding year). The speed of development is evidenced by reports as to the Houdry process alone showing an increase from 16,600 barrels daily capacity to 180,000 daily capacity in one year. *National Petroleum News*, Nov. 29, 1939, p. R. 501. Dr. Gustav Egloff, one of the outstanding authorities on catalysis in refining, reported the present commercial catalytic production of 76 and 80 octane number fuel, and predicted that these new processes would permit manufacture and sale for ordinary use by motorists of a 100 octane fuel. *National Petroleum News*, Oct. 11, 1939. This was confirmed in the Hearings Before the Temporary National Economic Committee on the Petroleum Industry, Oct. 23, 1939, p. 417.

ents of defendant corporation solely by considerations of economy. If a high octane fuel can be economically made without use of the patented combination, it will inevitably result in diminution of return of the inventions. It may well be that only by keeping the patented fuel at a higher level than other available gasoline (within the limits now or in the future permitted by the Surgeon General's health regulations) and by holding the good will of motorists through its tradename and assured quality, can the defendant corporation secure a return on its patents. (See Argument, *infra* pp. 78-79.)

5. OPINION, FINDINGS AND DECREE BELOW

Opinion. (R. 43.) In its opinion the district court concludes that the provisions in the refiner licenses that the fuel may be sold only to jobbers licensed by Ethyl Corporation are in restraint of trade.

Its reasoning is as follows:

It declines to decide that price maintenance or agreement or understanding to maintain prices has been established.

However, the court says, by the terms of the refiner licenses permitting sales only to licensed jobbers, the Ethyl Company is able to exclude and has excluded some jobbers from the business of selling lead-treated fuel. The principal reason has been unsatisfactory "business ethics." Unless the patents justify these restraints, the court believes that they offend against the anti-trust laws.

The court then turns to the patents. It ignores the method patent and the fuel patent, and limits its consideration to the fluid or anti-knock compound patent. It apparently considers (without discussion)

that this is the only patent under which defendant has any rights. With the scope of the patent monopoly thus narrowed, the opinion discusses whether the jobber licenses are in furtherance of any legitimate interest of the patentee in the exploitation of its invention.

It recognizes a legitimate interest in securing compliance with the public health regulations and in preventing adulteration, dilution, and deterioration of the patented product. *It sanctioned the making of field investigations by defendant.* But it concluded that while

> "not concerned with determining defendants' future policies or practices"

the court was

> "satisfied that the jobber licensing system is not the only method by which observance of the health regulations by jobbers can be enforced." (R. 54.)

Similarly, the court suggested that it was

> "evident that whatever interests the defendant corporation had in preventing dilution, adulteration and deterioration of treated gasoline in the hands of jobbers may be protected without any resort to the jobber license device." (R. 54.)

Nowhere in the opinion is there any suggestion as to how the licensor can conduct investigations, examine tanks and equipment, make medical examinations of employees, or take samples from jobbers whom it is forbidden to license. No consideration is given to the question as to how effective the court's assumed

(and unstated) methods might be in protecting against violation of the health regulations or adulteration or dilution.

The opinion then concludes that since the Ethyl Corporation itself manufactures only the anti-knock fluid it is not interested in the lead-treated fuel produced by its licensees and in its subsequent use. This is the result of ignoring the method and fuel patents and the rights and interests of the patentee in the fuel, its use in internal combustion engines, and in safe distribution to the motorist.

Since the court, therefore, believes that there are other (undefined) methods of protecting patentee's interest in the anti-knock fluid, it concludes that the Ethyl Corporation has no right to exclude anyone from the business of selling the patented lead-treated fuel for use in the patented process. Therefore, it enjoins the requirement of jobber licenses.

Findings. The lower court entered findings of fact incorporating the Stipulation by reference. In addition, it entered fifteen separate presumably ultimate findings consisting in part of statements from its opinion and in part of assumptions made by the court.[25] It is not clear what the purpose or legal effect of these additional findings is supposed to be. No

[25] For example, in Finding 7 the court states that "jobbers are under no temptation to avoid compliance with the regulation . . . concerning lead warning signs." (R. 59.) There is nothing in the record to support this statement except the fact that the defendant charges only seven cents for the signs. (Fol. 96, R. 41). This has nothing to do with insuring that the pumps be drilled and the signs attached and that the patented fuel be put only in the marked pumps, or that only properly labelled containers be used in distributing to the public.

question of credibility of witnesses is involved. They do not purport to be a summary of the evidence in the form of ultimate facts. At best they constitute an index of what the court has selected from among all the facts in the case as the basis for its decree.

Decree. (R. 62-63.) The decree orders the cancellation of the provision in the refiner licenses limiting sales to licensed jobbers. It requires the cancellation of *all* existing jobber licenses. The patentee is enjoined from including in any future refiner license any provision which limits jobber sales to licensed jobbers. Any future license from defendant corporation to jobbers is prohibited, as is any attempt to require that jobbers be licensed in order to buy, sell, or deal in the patented fuel. No matter how necessary for the enforcement of existing or new public health regulations, no matter to what extent dilution, substitution, or adulteration by jobbers impairs the established good will of the lead treated gasoline, and irrespective of any future changes in the gasoline refining or distributing business, no license control over jobbers may be exercised under these patents. Even though it owns unchallenged product patents on the fuel and a method patent on its use, defendant corporation's right to protect its product and control its sale by jobbers is abrogated.

Apparently recognizing the drastic character of the decree and its effect upon defendants, the court, without objection from the Government, granted an application for a stay order pending appeal. (R. 64.)

SPECIFICATION OF ERRORS TO BE URGED

Appellants urge in this Court that the court below erred in holding that the conditions in the refiner licenses restricting sales of the patented lead-treated fuel to licensed jobbers are not normally and reasonably adapted to secure return from the patents (Assignment I, R. 65); in finding that the defendant corporation in administering its jobber licensing system had not confined itself to preserving its trademarks, good will or reputation in the patented lead-treated gasoline, protecting the public from adulteration, or securing compliance with the health regulations of the Surgeon General (Assignment II, R. 65); in finding that the refusal to license price-cutting jobbers bears no relation to these interests in the patented product (Assignment III, R. 65); in finding, on the basis of speculation and unwarranted inference, that the maintenance of warning notices on pumps is the only one of the health regulations applicable to jobbers (Assignment IV, R. 65); in finding, in the same speculative manner, that the use of jobber licenses is not the only effective method to secure compliance with these health regulations (Assignment V, R. 66), and that these interests might be otherwise protected (Assignment VI, R. 66); in concluding that the patentee's interest in the marketing and pricing policies of those selling the patented and trademarked lead-treated gasoline was very remote (Assignment VII, R. 66); in disregarding the unquestioned claims under defendant's four patents and its right to control the manufacture, sale, or use of the patented lead-treated fuel and the patented method of using it in internal

combustion engines, as well as its trademark rights (Assignments XVIII-XX, R. 68); in failing to distinguish between the patents on the fluid and on the lead-treated gasoline (Assignment IX, R. 66); in concluding that the jobber licensing system was the legal equivalent of a combination among refiners to exclude price cutters (Assignment X, R. 66); in holding that the requirement limiting sales to licensed jobbers was an agreement in unreasonable restraint of commerce (Assignment XI, R. 67); in decreeing that these provisions in refiner license agreements and all jobber licenses be enjoined and prohibited (Assignments XII-XVII, R. 67); and in issuing a drastic injunction on the basis of unwarranted assumptions from the stipulated facts (Assignment XXI, R. 68).

SUMMARY OF ARGUMENT

I

The defendant corporation clearly has the right under its product and method patents to license jobbers handling its patented fuel. A patentee may impose any conditions upon the sale of the patented product by its licensees which are reasonably necessary for its commercial development and for securing financial return from the patent. Where, as in this case, the public interest and that of the patentee combine to require the early, economical, and widespread use of the invention through the licensing of others to manufacture, any reasonable conditions imposed by the licensor to ensure the quality of the patented product made by his licensees, to achieve its ready identification and acceptance by

the public, and to prevent its use in a dangerous manner, are proper. Reasonableness is determined not by hindsight but by the facts confronting the patentee in the beginning.

Measured by these criteria, the securing of compliance with the Surgeon General's health regulations was a *sine qua non* to marketing the patented product. And protection of quality—through trademark identification and prevention of adulteration, dilution, or deterioration of the specified standard—was essential to securing wide public acceptance. There appears to be no dispute that defendant may lawfully restrict its refiner-licensees to selling only to jobbers who comply with precisely the same conditions specified in the separate jobber licenses. The only question is whether there is illegality in defendant, through licensing jobbers, doing directly what it can admittedly do indirectly.

Under its method patent defendant has an unquestionable right to license jobbers. It has a like right under its product patent as well. The conditions in the jobber licenses are reasonable and related to securing return from these patents. Their use may be questioned only as to whether they were necessary or whether they were abused. By any realistic appraisal of the commercial situation they were clearly necessary. And the record does not support the charge that through threat of cancellation they were used to secure maintenance of refiners' prices. Hence there can be no question that defendant had the right to license jobbers, that its jobber licenses are proper and essential to the commercial development of its patents, and that such licenses have not, in extension of their specific conditions, been used unlawfully.

II

The only remaining question is whether the defendant's refusal in a few cases to license price-cutting jobbers to handle the patented product was unlawful. These few refusals are not shown to have had any actual effect upon trade——they did not result in price maintenance, in lessening the number of jobbers, or in any effect upon any jobber, community, or the public. The justification of the refusal to enter into dealings with established price cutters is found in the patentee's interest in preventing the patented product being dealt in by those who will impair its good will and who are more likely to dilute, adulterate, or substitute. Even on unpatented articles this justification has been judicially sanctioned, and the public interest in permitting a manufacturer by express contract to protect himself against price cutters has come to be widely recognized by federal and state enactment. The interest of a non-manufacturing patentee is as great. The circumstances surrounding the development of these patents, particularly in the light of the history of the petroleum industry, make clear the reasonableness of defendant's action. Since its justification in refusing to permit its product to be handled by a few notorious price cutters was reasonable, its occasional refusals of a license for this reason were not an unlawful restraint of trade.

III

Finally, even if defendant's refusal to license a few jobbers were unjustified, the decree entered was improper and an abuse of discretion. The lower

court recognized defendant's legitimate interest in insuring compliance with the Surgeon General's health regulations and in protecting the trademark, good will, and reputation of the patented product. The only practice it found unlawful was the exclusion of price cutters. Abolishing the whole system of jobber licenses was not necessary to enjoin this practice since an adequate, self-policing decree could have readily been entered. The scope of the decree thus exceeded the proof of any unlawful activity. Moreover, its drastic provisions will foreclose the protection of defendant's admittedly legitimate and essential interests. The district court's conclusion that jobber licenses were not necessary is based on assumptions unwarranted and contradicted by the record. There is no support for its view that mere reporting of violation to refiner licensees will be effective. Nor is there any evidence as to what other methods are possible to prevent dilution, adulteration, or substitution, or to insure compliance with health regulations. The decree, therefore, drastically impairs defendant's present ability safely and efficiently to market its patented product. More than this, it seriously hampers the development of the patents and limits the return from them during their remaining life. For it is now clear that in the immediate future the importance of quality controls and public health safeguards will be far greater. As it stands, even upon the view taken by the lower court that jobbers may not be refused licenses because of a prior history of price cutting, the decree is a cumbersome, drastic, and unjustifiable solution.

ARGUMENT

I.

THE DEFENDANT CORPORATION HAS THE RIGHT UNDER ITS PRODUCT AND METHOD PATENTS TO LICENSE JOBBERS HANDLING ITS PATENTED FUEL.

The defendant corporation owns four patents, whose validity and scope is not questioned, covering both the *product*, lead-treated fuel, and the *method* of using it in an internal combustion engine. *Supra* pp. 7-12. (While two of its patents also cover the tetraethyl lead-halide fluid, these claims are not here important.) Defendant thus has whatever rights the statutory patent monopoly confers to exclude all others from making, vending, or using the patented fuel or employing it in an automobile.

A. A PATENTEE MAY IMPOSE ANY CONDITIONS UPON THE SALE OF THE PATENTED PRODUCT BY ITS LICENSEES WHICH ARE REASONABLY NECESSARY FOR ITS COMMERCIAL DEVELOPMENT AND FOR SECURING FINANCIAL RETURN FROM THE PATENT

It may be taken as settled that a patentee's right to exclude all others does not mean, as a logical corollary, that he may permit the manufacture, sale, or use of his invention upon *any* terms and conditions he desires to impose. Though this is the English view,[26] and was at one time to some extent the

---

[26] *Incandescent Gas Co.* v. *Cantelo*, 12 Rep. Pat. Cas. 262, 264, Wills, J.: "Inasmuch as he has the right to prevent people from using them [the patented articles], or dealing in them at all, he has the right to do the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or absurd the conditions are." See, also, *National Phonograph*

rule in this Court, *Henry* v. *A. B. Dick Co.*, 224 U. S. 1 (resale price), it has since been repeatedly rejected. *Bauer* v. *O'Donnell*, 229 U. S. 1 (resale price) *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20 (monopolistic pooling); *Virtue* v. *Creamery Package Mfg. Co.*, 227 U. S. 8; *Motion Picture Patents Co.* v. *Universal Film Mfg Co.*, 243 U. S. 502 (tying clauses) *Carbice Corporation* v. *American Patents Corp.*, 283 U. S. 27, 31 (license conditioned on use of unpatented materials) *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458 (id.).

Nevertheless, the denial of logical symmetry has not prevented recognition by the Court of the commercial realities encountered in making an invention available to the public and affording to the patent owner a full pecuniary reward. Restrictions in a license to manufacture in only a certain place, *Rubber Co.* v. *Goodyear*, 9 Wall. 788, 799, or a particular type of product, *Bement* v. *National Harrow Co.*, 186 U. S. 70, or a specified quantity, *Aspinwall Mfg. Co.* v. *Gill*, 32 Fed. 697, were early recognized. Similarly, the patent monopoly of use was held to permit licenses limited as to time, *Mitchell* v. *Hawley*, 16 Wall. 544, or place, *Rubber Co.* v. *Goodyear supra*. And a license of the right to sell has been held proper when restricted as to sales price, the persons to whom, and conditions under which, sales

---

Co. v. *Menck*, [1911] A. C. 336 (Australian Patents Act). The prohibition of tying clauses in England was provided by statute. Sec. s. 38(1); Patent and Designs Act of Aug. 28, 1907, 7 Edw. 7. c. 29; *Sarason* v. *Frénay*, [1914] 2 Ch. 474; *Huntoon Co.* v. *Kolynos, Inc.*, [1930] 1 Ch. 528. *Cf.* Holmes, J., in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 519.

may be made, or the purposes for which the patented article may be sold. *United States* v. *General Electric Co.*, 272 U. S. 476, 490; *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 305 U. S. 124; *Straight Side Basket Corp.* v. *Webster Basket Co.*, 4 F. Supp. 644, 10 F. Supp. 171, 82 F. (2d) 245 (C. C. A. 2d); *Vulcan Mfg. Co.* v. *Maytag Co.*, 73 F. (2d) 136 (C. C. A. 8th), *cert. dis.*, 294 U. S. 734.

In this empirical process of judicial inclusion and exclusion, seeking to reconcile the congressional direction that the patentee be given a monopoly with the statutory expression of the public policy against monopolies and unreasonable restraint of trade, *Standard Oil Co.* v. *United States*, 283 U. S. 163, 169-70; *Chicago Board of Trade* v. *United States*, 246 U. S. 231, no precise all-inclusive boundaries have been established. Yet for most practical purposes the penumbra of impropriety is marked out by the cross-lights of previous decisions and opinions.

We submit the following as an *ad hoc* rationale: The owner of a patent is privileged to exclude all others from the manufacture, sale, or use of a patented product, and from use of, or grant of the right to use, a patented process. He may, if it is in his interest to do so, license others to make or sell or use the patented product or process upon payment of a substantial royalty. Either of these methods—retention by the patentee or license on substantial royalty—may serve to secure to him the full pecuniary reward from his invention. In many cases, however, the interest of the patent owner and the public interest alike dictate the earliest and widest

possible use of the product or process. To secure a wide and immediate market it is often necessary for the patentee to develop general use by consumers who want an assured source of supply, *i. e.* the manufacture and sale by many licensees, and who cannot be induced widely to adopt a product that is priced too high, *i. e.*, which carries the cost of a substantial royalty. Thus the patentee cannot as a practical business matter keep his invention for his own exclusive manufacture and sale nor can he exact large royalties for its use and sale by a small group of licensees.[27]

Where the public interest in the widespread use of an invention thus coincides with the interest of the patentee in maximum use and sale of the patented product, he may utilize a number of methods for securing a full financial return. He may, and frequently does, engage both in manufacturing himself and also licensing others to manufacture at a nominal royalty, taking his reward from profits on his own sales and at the same time encouraging, through attractive profit margins, the licensed manufacture and sale by others. Where this is done, the patentee may, to protect the return from his own sales and to prevent cut-throat competition by his own licensees, require the licensees to sell only at prices and through sales methods specified by the

[27] Likewise, the degree to which infringement is invited or the development of other inventions or substitutes for the patented product or process encouraged, is usually determined by the combined effect of (1) the extent to which the invention basically improves the art, (2) the extent to which it is made available for general use or restricted, and (3) the price or royalty, however included, which is charged for such use.

licensor. Under these circumstances, such conditions in a license "are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." *United States* v. *General Electric Co.*, 272 U. S. 476, 490."[28] See also *Bement* v. *National Harrow Co.*, 186 U. S. 70.

Where, however, the business facts make it clear that more effective and economical public use of the invention can be secured, the patentee may elect not himself to manufacture the patented product, but instead widely licenses others to do so at a low enough cost—compared with the economies from using the discovery—to enlist their interest and that of the public. His expectation is that by securing wide public acceptance and use during the life of the patent, his small unit return may aggregate a greater reward than retention for his own use or limitation by large royalties. From the point of view of public interest and the manifest purposes of the patent statutes, this method of exploiting an invention is certainly no less desirable. And any conditions imposed by the licensor to control and ensure the quality of the patented product made by his licensees, to achieve its ready identification and acceptance by the public, and, where necessary, to prevent its use in a dangerous manner, are likewise proper.

Finally, the determination as to what conditions are reasonably incident to the commercial develop-

[28] Taft, C. J.: "It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' "

ment of patents and to securing return from their early and wide-spread use, cannot be made without reference to the character of the invention, the existing conditions in the industry in which it will find use, and the difficulties and possible hazards which its introduction may encounter. *Supra,* pp. 7-21. As in many other situations, the facts of each case are largely controlling. And judicial review cannot substitute oracular hindsight for reasonable business judgment on the facts which existed in the beginning.

Measured by these criteria, there can be no contention that the interests sought to be protected by defendant corporation were not essential to the commercial development of its patents on lead-treated fuel and on the use of such fuel. We have already summarized the facts. *Supra* pp. 7-38. Rigid compliance with the health regulations of the Surgeon General was necessarily a *sine qua non* to marketing the patented product and licensing its use. Protection of quality—through trademark identification and prevention of adulteration, dilution, or deterioration of the specified standard—was essential in securing wide public acceptance of a product for which superior virtues could be claimed and a slightly higher price asked.[29]

It cannot be questioned that defendant corporation might have restricted its refiner-licensees to sel-

---

[29] Similarly, the requirement that a price *differential* be maintained *by the refiner* between the patented fuel and other gasolines was necessary in order to retain a profit interest in its manufacture and distribution despite the added cost of lead treatment. The Government has made no objection to these provisions for price differentials.

ling only through their own retail outlets or only to jobbers who owned their own retail outlets since these more restrictive licenses would have afforded closer protection of its interests in maintenance of quality and compliance with the health regulations. Indeed it conceivably might have wholly refused to authorize *any sales* of the patented fuel *to jobbers* just as it has without challenge excluded in these licenses any sales for aviation use. Defendant corporation elected instead to authorize the widest sale and to protect through jobber licenses what the court below termed its "legitimate interests" in the patented product and patented method.

Insofar as restrictive conditions might be included in the refiner licenses, there appears to be no dispute that defendant could restrict the refiner-licensees to selling *only* to jobbers who comply with *precisely the same conditions specified in the separate jobber licenses.*[39]

---

[39] We understand this to be the Government's position in the court below. In its brief it suggested that the provisions in the refiner license requiring a refiner to cancel contracts with jobbers who failed to comply with the health regulations, were both effective and proper (Brief, pp. 80, 82); and that it had no objection to a similar requirement that refiners refuse to deliver to any jobber who adulterated, diluted, or permitted the patented product to deteriorate, (p. 83). The only possible doubt was expressed as to the propriety of restricting sales of the Ethyl fuel to those who would use the Ethyl trademark. In the light of the facts concerning the need for consumer identification of a high octane fuel, (*supra* pp. 19-21), there can be no question that this condition was reasonably related to the commercial development of the product patent and hence proper in the refiner license.

The remaining question is whether there is any illegality in its determination to accomplish directly what it could admittedly do indirectly, that is, whether on the facts of this case it has any legal right under its patent monopoly independently to license jobbers and whether the conditions imposed in such licenses were likewise reasonably incident to the commercial development of its patents and to securing a full return from them.

B. THE LICENSING OF JOBBERS IS PROPER AND THE CONDITIONS IMPOSED IN SUCH LICENSES ARE NECESSARY AND REASONABLE

An examination of defendant corporation's patent position clearly discloses the technical basis for its right to license jobbers as well as refiners. (Whether in exercising its collective patent rights under the four patents, it has substantially restrained trade in the patented fuel, and the extent to which, if at all, injunctive remedy is warranted, is considered below, Points II and III.) Under its method patent it was necessary for defendant to authorized the use of the lead-treated fuel upon which it also has a separate product patent.[31] Hence the refiner licenses specifically refer to this method patent, No. 1,787,419, (R. 101, 109), and thus license the

[31] Despite continued attempts by the Government to have them appear controlling, the cases in which the patentee attempts to use a product patent to obtain a monopoly over unpatented materials, have no relevance in the present proceeding. Unlike *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, defendant not only has a patent on the product, lead-treated fuel, but also on one of the component elements, the tetraethyl lead-halide fluid. This is just as though the patentee in the *Carbice* case also

refiner in selling the lead-treated fuel to authorize the use of such fuel under the method patent. But insofar as the refiner license is limited and does not authorize sales to unlicensed jobbers, it cannot serve as a conduit for authority to utilize the method patent. Defendant corporation was wholly within its rights in requiring that *in the case of jobbers* the essential license under the method patent must flow *directly from it to the jobber.* Accordingly, the separate jobber licenses are specifically based on the method patent as well as the product patent. (R. 125, 128.) Thus in requiring that its refiner-licensees sell only to licensed jobbers, and in turn licensing such jobbers, defendant was acting wholly within the technical limits of the rights conferred by its ownership of the method patent.

But the legal justification for the jobber licenses need not rest alone on the narrow, although sufficient, basis of the method patent. They are completely warranted under the product patent as well in view of the practical commercial experience with the lead-treated fuel. We have already examined the necessity for securing compliance with the health regulations and for preventing adulteration, dilution, and deterioration of the patented product. It has also been demonstrated that every condition in

---

owned a patent on the carbon dioxide "dry ice." The fact that he did not was the point on which the case turned. 283 U. S. at 29. Similarly, unlike *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, the defendant not only has a patent on the method of using lead-treated fuel in an internal combustion engine, but also on the fuel itself. This is just as though the Barber Company in that case owned a patent on the bituminous emulsion. The fact that it did not underlies the decision. 302 U. S. at 460.

the jobber licenses can legally be included as *sales conditions in the refiner license.* And where it is necessary to protect the public health and the quality and reputation of the patented product, we submit that there is nothing in the anti-trust laws as a whole to prohibit the patentee from doing directly no more than he may reasonably do indirectly.

This contention brings us to what we understand is not a difference with the Government on the law, but to some disagreement on the facts in this case with respect to two questions: First, was it reasonably necessary as a business matter to act directly by licensing jobbers rather than indirectly through conditions in refiner licenses? Second, did defendant corporation do *more* through jobber licenses than it could have done indirectly through refiner licenses, that is, did it use the jobber licensing system to secure adherence to refiners' marketing and pricing policies?

I. THE REFINER LICENSES WERE NECESSARY

The record facts clearly indicate that direct licensing of jobbers was necessary and reasonable. There are 123 refiner-licensees. (R. 26.) There are approximately 11,000 jobbers who were licensed (R. 27). All refiners sell gasoline other than the premium Ethyl gasoline and all sell considerable quantities of gasoline which is not subject to the patents in any way. (R. 21-23, 26.) This Court is not unfamiliar with the lengths to which refiners are competitively required to go in the struggle for gallonage volume. Compare *Federal Trade Commission* v. *Sinclair Refining Co.*, 261 U. S. 463. To suppose that refiners would readily cancel contracts with

jobbers failing rigidly to comply with the regulations or neglecting to ensure compliance by their retailers, or that the refiners would refuse to make deliveries to jobbers who permitted or committed adulteration or dilution of the patented product, is to fly in the face of realities. To assume that refiners would devote much attention to policing the activities of the smaller and remote jobbers with respect to these requirements would be expecting the impossible.[32] The lower court specifically recognized that investigations as to compliance, sampling, etc. by defendant corporation would necessarily have to be continued, but assumed that simply telling the refiners of infractions would be sufficient. (R. 54). Necessarily, even though defendant included protective conditions in its refiner licenses, it found itself (and would under the decree find itself) in the commercially impracticable position of being required to revoke the license of a refiner supplying a large number of jobbers because the particular refiner either would not or could not compel compliance with the regulations and quality protection prohibitions by a single jobber. The Government leans heavily on the stipulated facts (R. 34-35) that instances of dilution and adulteration have not been great and that likewise failure of jobbers or their

[32] There are now over 16,300 licensed jobbers. See Petroleum Industry Hearings Before the Temporary National Economic Committee, Oct. 24, 1939, p. 448. The struggle among refiners to keep their jobber customers—as indicating the unlikelihood of depending upon refiner enforcement of health requirements and prevention of dilution—can also be seen in these hearings *Id.*, Oct. 9, 1939, p. 29, *passim*.

retailers to carry lead-warning signs or to prevent deterioration has not been excessive.[33] This tribute to efficiency of the jobber licensing system in accomplishing its purposes is, however, no basis for assuming that without it the story would have been or will in the future be the same.

Moreover, insofar as the patented product was sold under the "ETHYL" trade-mark, the interest of the Ethyl Corporation in insuring that it would not be adulterated or diluted in its commercial transit to the ultimate consumer was essential. The patented product characterized that name as much as the name denoted the product. Compare *The Coca-Cola Co.* v. *The Koke Co.* 254 U. S. 143, 146. It has already been pointed out that lead-treated gasoline of high octane value does not leave the refinery in sealed containers; and the quality of the gasoline reaching the filling station pumps from a jobber is dependent upon the integrity of the jobber and his care in handling the product in bulk. A particular jobber may have in storage at the same time the patented lead-treated gasoline, third-grade gasoline, kerosene, and fuel oil. His piping arrangements may be such as to facilitate, accidentally or intentionally, the mixture of these commodities and the resulting adulteration.

[33] As already noted, *supra* p. 18, note 10, the Government employs the same reasoning in assuming that because enforcement of the health regulations has prevented cases of lead poisoning, these regulations may now be minimized. In like fashion, it —and the lower court (R. 54)—assume that because defendant supplies lead-warning signs for seven cents each, there is no necessity for insuring that they are displayed on the right pumps at the right time or that properly labelled containers will be used.

or dilution of the Ethyl gasoline. (*Supra* p. 20) Under these conditions, where the only method of guaranteeing the integrity of the trademarked patented product is through direct supervision, the use of a jobber license for the purpose of protecting quality is obviously reasonable.[34] Indeed, wholly apart from patents, the existence of commercial conditions paralleling those of the present case, has been held to permit licensing based upon a trademark alone. *Coca-Cola Co.* v. *Bennett*, 238 Fed. 513 (C. C. A. 8th); see also *Coca-Cola Co.* v. *Butler & Sons*, 229 Fed. 224.[35]

Granting that the conditions in these jobber licenses were reasonable (and we do not understand the Government to object to them), it was and is the business judgment of defendant that direct licensing of jobbers is the only effective means of se-

---

[34] "Of what benefit would a trade-mark be, if one buying the article protected by it were permitted to adulterate it, or given an opportunity to do so, and then offer it to the public as the genuine article, protected by the trade-mark?" *Coca-Cola Co.* v. *Butler & Sons*, 229 Fed. 224, 232. See, also, *Standard Oil Co.* v. *Fed. Trade Comm.*, 273 Fed. 478, 482 (C.C.A. 2d), *affirmed*, 261 U. S. 463, where the Court of Appeals said "* * * the facts of that [the *Bennett*] case are suggestive of the advantages to the public in being reasonably able to rely upon getting the 'gas' he pays for out of any trade-marked pump."

[35] The fact that the defendant corporation does not directly manufacture the patented fuel is immaterial. Its proprietary interest arises from its specification of the quality of the patented fuel and the attachment to that product of its name and trademark. *Menendez* v. *Holt*, 128 U. S. 514, 520; *Coca-Cola Co.* v. *Bennett*, 238 Fed. 513 (C.C.A. 8th); *Ralston Purina Co.* v. *Samiwax Paper Co.*, 26 F. (2d) 941, 943, 944. *Cf. Yale Electric Corp.* v. *Robertson*, 26 F. (2d) 972, 974 (C.C.A. 2d).

curing their enforcement. Technically under the patent law, it has the right to require jobber licenses under its method patent. Under its product patent on the lead-treated fuel the jobber licenses are also proper if necessary. Even assuming that the court may at all question their necessity, we submit it is an unwarranted judicial encroachment for the court to throw out the patentee's judgment and experience and substitute its own. Complete abrogation of the right to license jobbers under any conditions, substantially impairs the effective use of the invention insofar as jobber distribution is concerned.

2. DEFENDANT CORPORATION DID NOT USE THE JOBBER LICENSING SYSTEM TO REQUIRE ADHERENCE TO REFINERS' MARKETING AND PRICING POLICIES

We come then to the question whether defendant sought to do more by directly licensing jobbers than it might have lawfully accomplished indirectly (and ineffectively) by the same conditions in its refiner licenses. In its petition (R. 6) and in the court below the Government insisted that even though proper on their face, the jobber licenses had been used to require, on threat of cancellation, that jobbers adhere to refiners' marketing and pricing policies. We have already summarized the record facts showing that once a jobber license was granted, it was never canceled for any reason outside the conditions contained in it; that there had in fact been no adherence to any refiner prices; that defendant made no announcements to its jobber licensees with respect to prices; and that jobber-licenses had not in any case been canceled where jobbers cut prices or did not

follow the marketing policies of refiners. (*Supra*, pp. 34-35.)

On these facts the court below refused to find that any case had been made out on the charge that the jobber licenses were, *dehors* the licenses themselves, used for an improper purpose. The decision on this issue can hardly be questioned in the light of the record facts.

We do not contend that defendant may employ its jobber licenses for any purpose foreign to their express conditions, or that it may through threat of cancellation require that the licensees adhere to a refiner's general marketing or pricing policies. This was not done in the present case. And the mere assumption that it *might* be done is, we submit, no basis for an injunction's completely abrogating all jobber licenses which defendant under its patents is legally entitled to issue and the conditions in which are reasonably necessary for the full and safe development of the inventions covered by the patents.

II

Such refusals of licenses to jobbers as occurred were not unlawful

The view of the trial court appears to have been, in its essence, that any system of jobber licenses was an unreasonable restraint of trade because the exclusion of anyone from the business of distributing the patented fuel to be used in the patented process was not necessary to secure defendants' legitimate interests. We have pointed out that this was error, and arose largely from the court's mistake in overlooking or disregarding the fuel patent and the process or

method patent. These grants, and the commercial and health requirements for their proper exploitation, made a system of jobber licenses reasonable, proper, and clearly necessary.

So the patentee, having the right to license jobbers, necessarily had the right to exclude some persons who in its judgment could not meet certain obviously pertinent requirements. Plainly a jobber who announced that he intended to disregard the Surgeon General's regulation or to dilute and palm off an inferior product as lead-treated fuel could be refused a license. Similarly, jobbers whose volume of sales was so small or equipment so defective as to make certain deterioration of the patented fuel in storage, those who had disreputable stations, or who were known in the community as dishonest could be refused licenses on grounds of plain commercial common sense. These rejections raise no serious legal questions.

There remain the small residue who were refused licenses because of their prior activities as price cutters—not of defendant's patented fuel, because they have never sold any, but of other motor fuels. Was it an unreasonable restraint of trade for the Ethyl Corporation to refuse licenses to this group and by so doing exclude them from the business of distributing the patented fuel? Unreasonableness may be determined from its effect upon trade or from the justifiableness of the act—the balancing of the interests which are secured and impaired by it—in much the same way that unfairness or an unfair method of competition is judged. See *Chicago Board of Trade* v. *United States*, 246 U. S. 231, 238; *Maple*

Flooring Mfrs. Assn. v. *United States*, 268 U. S. 563, 578-84.

Viewed from their actual effect upon trade, these refusals cannot be said to be unreasonable. For the record is altogether barren of any showing of harmful effect or tendency in that direction. There is no evidence of the number of refusals except that they must have been small. They were a fraction of a fraction of 8% of all the jobbers. They did not result in a maintenance of prices, because, as the district court says and found, "there has been and is a great deal of price cutting on the part of licensed jobbers" (R. 51, 60), and there is no evidence at all as to what the refiners' prices are or have been. Nor is it shown that any one of the few excluded jobbers did not obtain adequate supplies of unpatented gasoline, even of high octane rating. In short, there is no showing or attempt to show that any jobber, community, or the public at large was affected in any way by these refusals to issue licenses. So unreasonableness of the restraint cannot arise from any effect upon commerce or alleged lessening of competition. *Cement Mfrs. Protective Ass'n* v. *United States*, 268 U. S. 588, 605; *Standard Oil Co.* v. *United States*, 283 U. S. 163, 179.

We turn then to test reasonableness by consideration of the justification of the refusal to deal on the ground of prior price conduct of the applicant. There can be no question that had defendant itself manufactured and sold the patented fuel it would be entirely justified as a seller—wholly apart from any patent rights—in refusing to sell to a jobber whose prior conduct as a price cutter warranted the belief

that he would do the same with defendant's product. *United States* v. *Colgate & Co.*, 250 U. S. 300. The justification is the seller's interest in disposing of his product according to his own judgment of his own advantage, and he may refuse to enter into dealing with anyone who he thinks will act "unfairly in trying to undermine his trade." *United States* v. *Colgate, supra*, at 307, citing *Eastern States Retail Lumber Dealers Association* v. *United States*, 234 U. S. 600, 614.[36] There is to be sure a restraint of trade, but

[36] It is true that prior to the recent amendment to the Sherman Act, see Appendix, any express contract between a seller and his *existing customers* was illegal. *Dr. Miles Medical Co.* v. *Park*, 220 U. S. 373; *Bauer* v. *O'Donnell*, 229 U. S. 1; *United States* v. *Schrader's Son*, 252 U. S. 85; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8. There is no such charge in the present case. And in view of the lower court's refusal to find any actual price maintenance, or any kind of implied agreement between defendant and any refiner or jobber licensee, there is no need to examine those cases—probably no longer controlling—which deal with the niceties of how far a seller may go in espionage among his existing customers before an implied agreement will be charged. See, *e.g.* *Frey & Son* v. *Cudahy Packing Co.*, 256 U. S. 208; *Federal Trade Commission* v. *Beech-Nut Co.*, 257 U. S. 441; *American Tobacco Co.* v. *Federal Trade Commission*, 9 F. (2d) 570 (C.C.A. 2d), *affirmed* 274 U. S. 543; *Cream of Wheat Co.* v. *Federal Trade Commission*, 14 F. (2d) 40 (C.C.A. 8th). Compare *Hills Bros.* v. *Federal Trade Commission*, 9 F. (2d) 481 (C.C.A. 9th); *Toledo Pipe-Threading Co.* v. *Federal Trade Commission*, 11 F. (2d) 337 (C.C.A. 2nd); *Q. R. S. Music Co.* v. *Federal Trade Commission*, 12 F. (2d) 730 (C.C.A. 7th); *Ayer* v. *Federal Trade Commission*, 15 F. (2d) 274 (C.C.A. 2d), *cert. den.* 273 U. S. 759; *J. W. Kobi Co.* v. *Federal Trade Commission*, 23 F. (2d) 41 (C.C.A. 2d); *Shakespeare Co.* v. *Federal Trade Commission*, 50 F. (2d) 758 (C.C.A. 6th); *Armand Co.* v. *Federal Trade Commission*, 78 F. (2d) 707 (C.C.A. 2d).

it is a justifiable and reasonable restraint. There is no overriding social interest in the price cutter's desire to profit at the seller's expense and undermine his trade. Compare *Federal Trade Commission* v. *Raymond Co.*, 263 U. S. 565, 573; *American Tobacco Co.* v. *Federal Trade Commission*, 9 F. (2d) 570 (C. C. A. 2d), *aff'd.*, 274 U. S. 543.

In the present case the patentee, for commercial reasons, which are clearly in the public interest, has delegated the manufacturing of the patented fuel to a large number of refiner-licensees. But it has reserved from the authority granted in these licenses (among other eminently reasonable powers) the power to exercise its own independent discretion in excluding from those who may buy and resell for use in the patented process, any jobber whose prior business conduct warrants the belief that he will act unfairly by price cutting to undermine patentee's trade. And in a few cases it has exercised this power.

In so doing the Ethyl Corporation was not attempting to extend any powers conferred by the patents which it held. For these patents clearly conferred on it the power to specify to whom its licensee might sell, and, under the process patent, who might authorize the use of the fuel in internal combustion engines. The question is not, therefore, whether Ethyl was, by the jobber licensing system, extending the powers granted by the patents, but whether the Sherman law requires that those powers be narrowed so that, while licenses might properly be refused for some reasons, they could not lawfully be refused because the applicant's prior conduct showed that he would cut prices and injure the patentee's business.

Clearly no such result is required. The patentee, who starts in this case with infinitely greater powers over the marketing and use of its fuel than were possessed by the defendant in the *Colgate* case and who has quite as much interest in the market for the patented fuel, may reserve to itself the power, admittedly possessed by the Colgate Company, to refuse to have the patented product sold by price cutters who will undermine the market. The interest is the same, the injury is the same, the justification for the refusal to deal is the same. The restraint is reasonable and justifiable by reason of defendant's direct interest in and admittedly legal power over the sale and use of its patented fuel. Compare *Wm. Filene's Sons Co.* v. *Fashion Originators' Guild*, 90 F. (2d) 556 (C. C. A. 1st) (boycott of style copyists held justifiable).

The propriety of a seller's interest in protecting the good will in his product by precluding its sale by those who may use it as a price football [37] has come to be widely recognized. In forty-two states so-called Fair Trade Acts have been enacted to sanction explicit resale price contracts. See *Old Dearborn Distributing Co.* v. *Seagram-Distillers Corp.*, 299 U. S. 183. The changing public policy as to the

---

[37] See Holmes, J., in *Dr. Miles Medical Co.* v. *Park*, 220 U. S. 373, 412: "I cannot believe that in the long run the public will profit by this court permitting knaves to cut reasonable prices for some ulterior purpose of their own and thus to impair, if not to destroy, the production and sale of articles which it is assumed to be desirable that the public should be able to get." See, also, *Meyerson* v. *Hurlbut*, 98 F. (2d) 232 (C.A. D.C.) (calling a merchant a "price cutter" held to be slanderous *per se*).

position of price cutters likewise was manifested by Congress in its recent amendment of the Sherman Act to exempt such agreements in interstate commerce where permitted under state law. See Act of August 17, 1937, c. 690, 50 Stat. 693, 15 U. S. C. sec. 1. (See Appendix.) We submit that the restraint here involved—that the patented product may not be sold to those who, experience indicates, depress the prevailing retail price, create suspicion and ill will, and destroy the patented product's reputation—bears as much reasonable relation to the patentee's reward as the conditions restricting sales territory, uses for which sold, place of use, method of sale, and sales price, which this Court has sanctioned. *Supra*, pp. 48-49.

The trial court fell into error upon this point by overlooking the fuel and method patents and treating the defendant corporation as the owner of merely the anti-knock fluid patent. Upon this view the patentee merely sold to refiners a patented chemical combination for use in their business and had no concern or control over the lead-treated fuel. So the court says, "Its pecuniary interest, if any, in the marketing and price policies of the jobbers selling gasoline is obviously very remote." (R. 55.) Upon the premises assumed, the court's view is possibly right. But the premises are fatally wrong. Defendant is vitally concerned with the patented lead-treated fuel, the manufacture, sale, and use of which are controlled by its patents. Its pecuniary interest in the price policies of its distributors is direct and important. The return on its invention comes from the public use of the fuel, notwithstand-

ing that it takes the form of payments for fluid. And the effect of price cutting on its return is just as direct as was the effect upon the Colgate Company.

Indeed, since its trademarked lead-treated fuel is a premium priced product, it is directly concerned in any distributing practices which might discourage its being handled profitably by other jobbers. Its action is infinitely more modest. It does not cancel the licenses of price cutters; nor does it threaten to do so; it merely refuses to authorize those who seem most likely to engage in the practice as distributors of its patented fuel. The result is not to maintain any price or price level, or to prevent price competition of which there is a great deal. (R. 60.) It is merely to exclude from the jobber distributor business a small fraction of those who wish to enter it—a small fraction whose past history shows that they can be counted on to undermine the market by price cutting.

The history of the motor fuel industry shows that defendant's apprehension regarding the demoralizing potentialities of such practices upon its patented fuel are not unwarranted. Prior to the period in which these patents have been developed the story is one of recurrent price wars in which the struggle for dealer outlets developed virtually every type of industrial piracy built around localized price cutting.[38] That defendant deemed it sound business judgment not to permit its patented product to be sold to those jobbers whose past history indicated they might deal with it in this fashion can

[38] See Petroleum Industry Hearings, Before the Temporary National Economic Committee, Oct. 9-25, 1939, *passim*.

hardly—and certainly without proof of any effect upon the public—be deemed unjustified.

We have so far discussed the justification and reasonableness of refusing licenses to potential price cutters as though the danger from them to the patentee's interests lay wholly in price demoralization and its direct effects. But this is far from the case. The danger of dilution, substitution, or adulteration is plainly greater in the case of jobber applicants who habitually sell the goods at cut prices and are necessarily operating on a narrow margin, and perhaps often at a loss. Since any cut in price which is likely to attract bargain-seeking trade is apt to equal or exceed the premium of lead-treated over untreated gasoline, substitution or dilution is a simple and obvious way to recoup. Accordingly, defendant corporation's refusal to license particular price cutters was related not only to the general good will of its patented product in the trade but also, and equally, to the accepted fact that the price cutter would undoubtedly be prone to disregard the specific and proper conditions in the jobber license.

For these reasons we submit its refusal, in instances so limited in number as to guarantee the tolerance of its judgment, to license price cutters as distributors of its patented product was not unjustified. Such justification in the long run is dependent upon the prevailing view concerning this type of dealer and the good or ill he does in a competitive system. We have already seen that the attitude of the public, the views of this Court, and certainly the policy laid down by the federal and state legislatures has changed from the early theory that indiscriminate price cutting is an economic lubricant to the realis-

tic belief that it is destructive of fair competition and productive of economic maladjustment.[39] In this connection there is no distinction between the seller of an unpatented article and the licensor under a product patent, who in his own and the public interest licenses others to manufacture it for immediate, wide, and economical availability to the public.[40] In so doing the patentee may justifiably provide that the licensed manufacturer shall not offer it to those whose prior business conduct indicates they may impair its reputation and good will.[41]

---

[39] See, also, Brandeis, J., in *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8, 27-28; "[This type of determination] is an economic question. To decide it wisely it is necessary to consider the relevant facts, industrial and commercial, rather than established legal principles." See *Palmolive Co., Ltd.* v. *Freedman*, [1928] Ch. 264; *c.f.* Seligman & Love, "Price Cutting and Price Maintenance" (1932) pp. 94 *et seq.*; *Haring*, "Retail Price Cutting and Its Control by Manufacturers" (1935) c. 8 *et seq.*; and articles and materials collected in Oppenheim, "Cases On Trade Regulation" (1936) pp. 834-35. On the change in policy reflected in the recent amendments to the Clayton Act, see Learned and Isaacs, "*The Robinson Patman Law*" (1937) 15 *Harvard Business Review* 137; Burling and Sheldon, "Price Competition As Affected by The Robinson-Patman Act." (1939) 1 *Washington and Lee Law Review* 31.

[40] In England this interest of the patentee is recognized to the extent of permitting price notices on patented products to control resale prices. See *Columbia Graphophone Co., Ltd.* v. *Thomas*, (1924) 41 Rep. Pat. Cas. 294, *cf. Dunhill, Ltd.* v. *Griffiths Bros.*, (1933) 51 Rep. Pat. Cas. 93.

[41] This argument need not be pressed to the point of contending that the licensee may require cessation of business with those who turn out to be price cutters. For there is a recognized difference between refusing to deal at all with a notorious price

In the present case it is immaterial how such refusal be voiced. The defendant corporation may have required the refiner to sell only to non-price cutters as defined in the license or determined by the licensor. Instead, it refused to license a few notorious price-cutting jobbers and limited its refiner-licensees to selling only to licensed jobbers. As already shown, *supra* pp. 47-60, the defendant Ethyl Corporation has a clear right under its patents to license jobbers. Whether the refusal to permit recognized price cutters to handle its product is effected indirectly through the refiner license or directly through the jobber license is immaterial. From the viewpoint of any unreasonable restraint of trade—with which the lower court was seeking to deal—the justification is equally plain beyond doubt.

III

The decree entered was improper and an abuse of discretion

The defendant Ethyl Corporation did not seek, and does not here assert that it had the right, to use its patents to secure the maintenance by jobbers of any particular price levels on the patented fuel or other gasoline. It believes, and contends in this

---

cutter, and requiring maintenance of a general price level on threat of cancellation. See cases cited *supra* note 36. There is an obvious distinction between "price-maintenance," *i.e.*, holding at a high level the prices of all who sell, and the refusal to deal at all with recognized price cutters. In the present case there is no sufficient proof of attempted price maintenance through use of jobber licenses, but at most merely the refusal to license a few notorious price cutters.

Court, that it could justifiably employ its patents to exclude as distributors of its patented fuel a small group of notorious price cutters. But wholly apart from this contention, we submit that the district court's decree goes far beyond anything required to prevent such exclusion and its complete abrogation of the jobber licensing system is wholly unwarranted by the record and unjustifiably limits the patentee in its future development of the patents.

We recognize that this issue involves judicial discretion. But it is well settled that where the decree entered in an anti-trust suit will "obstruct the useful and entirely lawful activities" of the defendants, this Court will order its modification. *Sugar Institute* v. *United States*, 297 U. S. 553, 602. Compare *United States* v. *Standard Oil Co.*, 173 Fed. 177, 192.

We have already noted the court's erroneous conception that the defendant's patents covered only anti-knock (tetraethyl-halide) fluid rather than the patented *fuel*, which such fluid is used to make, and the method of using it in an internal combustion engine. (*Supra* pp. 38-39.) But even though the court overlooked or disregarded these product and method patents, plainly of record, it nevertheless recognized in both its opinion and findings that the Ethyl Corporation had a legitimate interest in insuring compliance with the Surgeon General's health regulations and in protecting the trademark, good will, and reputation of (patented) lead-treated fuel. (R. 54.) Curiously enough, it also recognized that in order to protect these interests, the defendant corporation could

continue to make investigations "just as is presently done." (R. 54). The only practice it found unlawful was the exclusion of price cutters. To prevent the recurrence of such exclusion, it decided that on the record the entire jobber licensing system should be enjoined.

A. ABOLISHING THE WHOLE SYSTEM OF JOBBER LICENSES WAS NOT NECESSARY TO ENJOIN THE EXCLUSION OF PRICE CUTTERS

The district court's objection to defendant's conduct lay solely in the fact that in determining whether to grant jobber licenses it investigated the applicant's price-cutting record and in a number of instances refused to issue licenses because of this record. The court thought that defendant had no justifiable interest in this subject matter and was not warranted in refusing licenses because of it. The court does not voice any criticism whatever of the other grounds upon which refusals were based or in the supervision exercised over those who received licenses but, on the contrary, concedes that defendant's interests were legitimate. It believed, however, for reasons the unfounded character of which we discuss below, that these interests could be protected in other ways. Therefore, because one, and perhaps the most common, reason for the occasional few refusals was objectionable to the court, it abolished the whole system on the theory that no harm was done by the excess of vigor.

A proper decree could have been framed which would have enjoined the objectionable practice only. Such a decree would have more than adequately rem-

edied the situation if it had enjoined defendant from refusing to grant licenses for this reason, from investigating the prior price conduct of any applicant for a jobber license, and, as an additional safeguard, if one were deemed necessary, by requiring that any refusal to license be accompanied in each case by a written statement from defendant as to the reason for such refusal and a summary of the facts upon which it was based. Such an injunction would have been adequate, would have remedied what was deemed an unreasonable restraint of trade, and would have been self-policing.

It is thus apparent that the abrogation of the entire jobber licensing system was unwarranted on the record and that the scope of the decree exceeded the proof of any unlawful activity. In such case modification to conform to prohibiting the evil found has always been the rule. See *Bliss Co.* v. *United States*, 248 U. S. 37, 48; *American Steel Foundries* v. *Tri-City Council*, 257 U. S. 184; *Warner & Co.* v. *Lilly & Co.*, 265 U. S. 526. *Cf. Hague* v. *Committee for Industrial Organization*, 59 Sup. Ct. 954, 964.

B. ABOLISHING THE WHOLE SYSTEM OF JOBBER LICENSES WILL FORECLOSE THE PROTECTION OF ADMITTEDLY LEGITIMATE AND ESSENTIAL INTERESTS, INCREASING IN IMPORTANCE DAILY, IN PUBLIC SAFETY AND THE QUALITY OF THE PATENTED PRODUCT.

Because of the prohibitions of the decree defendant cannot license jobbers. It is thus deprived of the only effective means shown by experience for enforcing compliance by the jobbers with the Surgeon General's regulations. Defendant is likewise foreclosed from the only effective method of insuring

that the patented lead-treated fuel will not be diluted, adulterated, or permitted to deteriorate. Likewise, as to that part of the patented fuel sold under the "ETHYL" trademark, it is placed in a position where it cannot effectively prevent substitution. Compare *Coca-Cola Co.* v. *Bennett*, 238 Fed. 513 (C. C. A. 8th). We have already reviewed the evidence and obvious business factors which will cause this result, in discussing the necessity for jobber licenses, *supra* Point II, pp. 56-60. We submit that these jobber licenses—the right to issue which cannot be questioned and the conditions of which are in no way alleged to be improper—are essential for the protection of defendant's vital interests in the protection of the public safety and the quality of its product.

The district court thought otherwise. Its manifest error in doing so can most readily be seen by examining the extent to which it departed from the record in reaching its conclusion. After recognizing in both its opinion and findings that defendant had a legitimate interest in securing compliance with the Surgeon General's regulations and in protecting the trademark, good will, and reputation of the patented product (R. 54, 58), the court stated that to protect these interests the defendant corporation could make investigations "just as is presently done." (R. 54.) The court then assumed that as to the health regulations, the use of jobber licenses "is not the *only method* by which observance . . . can be enforced" (R. 54), and that as to dilution, adulteration, and deterioration, the patentee may be "protected without any resort to the jobber license de-

vice."[42] (R. 54.) There is no support whatever in the record for this bland assumption. The court itself notes that the refiners have

> "been tried and found wanting, but this apparently was due to an unwillingness on the part of refiners to conduct their own investigations of jobbers' retail outlets." (R. 54).

Despite this, it still assumes that, where defendant's field investigations reveal violation, remedy may be secured through its refiner-licensees. The court does not consider how as a practical business matter defendant could cancel a refiner's license simply be-

---

[42] The citation by the court at this point of the *International Business Machines* case, 298 U. S. 131, indicates its confusion. That case involved a *tying clause*, in the lease of a patented tabulating machine, which required the purchase of the lessor's cards. The tying clause was specifically prohibited by the Clayton Act; yet the lessor insisted that the use of cards other than its own would impair the good will of the patented tabulating machine. After pointing out that the Clayton Act permitted no exceptions, this Court stated by way of dicta that the patentee could protect its good will by providing in its lease that only cards conforming to its specifications could be used. (298 U. S. at 140). The case in no way suggests that license provisions to safeguard good will are improper. Nor do its peculiar facts warrant any *a priori* assumptions as to what is or is not an effective method for securing such protection in the commercial situation involved in the present case.

Moreover, we do not believe that the patentee must demonstrate that any method it selects to exploit its patents is the *only* method which might be effective, even though it is clear that in the present case such demonstration can be made from the record. *Supra*, pp. 56-60.

cause such refiner would or could not insure compliance with the health regulations or the quality requirements by every small retail outlet owned by a jobber or by every retailer among the hundreds served by each of his jobbers. There is no basis of record for the assumption that action through refiners would be effective. Indeed, the record shows the contrary, *supra* pp. 30, 56-60, and the court itself, as shown above, came to somewhat the same conclusion. In short, the court without record support concludes that the defendant should do indirectly what the injunction prohibits it from doing directly and that every present requirement in its jobber licenses may be enforced indirectly (and ineffectively) by defendant through its refiner licenses, but may not lawfully be accomplished directly (and effectively) through jobber licenses.

Beyond this suggestion—that reporting to refiners the results of defendant's field investigations might suffice—there is nothing in the record, opinion, or findings to indicate what "other methods" may be used to enforce the health regulations[11] or protect the good will in the patented product. It is thus obvious there is no support for the lower court's conclusion that the protection of defendant's legitimate interests can be achieved other than through

[11] We have already indicated, *supra* notes 10 and 33, the utter lack of support in the record for the court's further assumption that there is little need for the defendant to concern itself with lead warning signs because it supplies them at the nominal charge of seven cents. Suppose it gave them away?

jobber licenses. The complete abrogation of such licenses forecloses protection of such interests necessary under conditions prevailing at the time of the Stipulation.

But the unjustifiable damage done by this drastic decree must be considered not only with reference to conditions prevailing in 1938 but in the light of what will be required during the remaining life of the product and method patents. This Court will judicially notice that the oil refining business is not static but in a continual state of evolution." Through commercially proved catalytic refining methods gasoline of very high octane rating can be produced without the use of these patents. See Statement, *supra* pp. 36-38. Indeed, fuel equal in octane rating to the "ETHYL" standard specified in the Stipulation is now being regularly manufactured outside the pat-

---

" See, in addition, to the materials cited *supra* note 24: "Petroleum Industry Hearings, Temporary National Economic Committee, Oct. 9-25, 1939; "Refining Technology," *National Petroleum News*, Jan. 10, 1940, p. R-3 *et seq.*, (showing refinery construction and new methods in use during 1939); Egloff, "The Cracking Art in 1938", (annual review giving processes, statistics, research, and some 254 pages of new patents, in 1938). Compare Hearings Before Senate Subcommittee of the Committee on Mines and Mining on S. 2027, Federal Petroleum Act, 74th Cong., 1st Sess., April 16-17, 1935; Hearings Before Senate Subcommittee of the Committee on Finance on S. 790, 75th Cong. 1st Sess., Feb. 12-17, 1937; Hearings Before House Subcommittee of the Committee on Interstate and Foreign Commerce, on S. 790 and H.R. 5366, 75th Cong. 1st Sess., April 27-29, May 3, 1937; Hearings Before *idem* on S. 1302, H.R. 4547, and H.R. 2308, 76th Cong. 1st Sess., April 26-28, 1939.

ents and being sold at lower prices than the patented product. This does not mean that the use of tetraethyl lead to produce a high octane motor fuel under the patents will soon be over. Defendant may be driven to licensing the production of patented fuel containing far higher lead concentrations and possessing an exceedingly high octane rating. Through supercharging of motors and greater possible compression ratios, resulting in further efficiency and economy, the product and method patents have a wide field of continued use in the offering of lead-treated fuel to motorists.[45]

No one, and certainly not a court, can foresee all of the future problems. Certain it is that the use of higher percentages of tetraethyl lead will require some re-examination and revision of the Surgeon General's regulations and possibly the imposition of further safeguards. To take from this patentee its entire right to license jobbers under its product and method patents is to circumscribe, if not to foreclose, future development. It constitutes a drastic penalty upon the enterprise responsible for the wide adoption of a valuable series of inventions, and curtails the future securing of the full return possible from the patents.

Accordingly, we respectfully submit that because its provisions abolishing the whole system of jobber licenses were not necessary to enjoin the exclu-

[45] See Edgar, "The Manufacture And Use of Tetraethyllead", 31 *Industrial & Engineering Chemistry* (1939) 1439, for performance data underlying this development.

sion of price cutters, and because the court's decision to do so was based on sheer assumptions unwarranted by the record, and because such abrogation of all jobber licenses will foreclose defendant in its present and important future efforts to protect its admittedly legitimate and essential interests in public safety and the quality of its patented product, the decree entered should, in any event, be reversed with directions that it be modified to prohibit only what has been deemed unlawful. As it stands, even upon the view taken by the lower court that jobbers may not be refused licenses because of a prior history of price cutting, the decree is a cumbersome, drastic, and unjustifiable solution.

CONCLUSION

It is respectfully submitted that the decree of the District Court be reversed with instructions to dismiss the petition.

DEAN G. ACHESON,
H. THOMAS AUSTERN.

January, 1940.

APPENDIX

Section 1 of the Sherman Act, as amended (26 Stat. 209, 50 Stat. 693, 15 U. S. C. § 1):

"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided*, That nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 5, as amended and supplemented, of the Act entitled 'An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes', approved September 26, 1914: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."